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"LAND DEVELOPMENT -FARM LAND APPRAISAL"

BY

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LAND DEVELOPMENT - "FARM LAND APPRAISAL"

WRITER'S NOTE AND ACKNOWLEDGMENT

The participant is a Soil Physicist of the Land Tenure Administration, Manila. He graduated in 1954 with the Degree of Bachelor of Science in Agriculture and Certificate in Agricultural Education from the College of Agriculture, University of the Philippines. Prior to his selection as a participant under the NEC-ICA Type A Training Program, he was a vocational teacher in agriculture in the Bureau of Public Schools and a farm manager of the Lafonete Plantation at Davao City. Among his duties in the Land Tenure Administration is to conduct a soil survey of all petitioned landed estates prior to the negotiation between the landowners and tenant-petitioners. The report on soil survey and land capability together with other reports guides the LTA Board of Administrators in determining the fair market value of an estate under negotiation.

The reason why the writer may have been sent abroad to undertake land valuation may be gleaned from the purpose and objectives of his study program prepared by the United States Operations Mission in the Philippines quoted hereunder: "There are no expert land appraisers in the Philippines and no basic policy or standard appraisal system. Land is not appraised on the basis of its productive capacity. There is no uniform system of valuing land for taxation. Landowners pay a relatively small amount of taxes. The participant is expected to assist with the development of a land appraisal system; the development of appraisal forms and assist in the training of other appraisers."

The sources of this report are the Manuals and Instructions of the Farm Credit Administration and Farmers Home Administration, Statute of Laws of Iowa relating to Assessment and Taxation, Basic Principles of Urban Assessments by Andrew S. Regis, A Guide for Procedure in Assessing by Hugh H. Harter, Journal Paper No. J-2190 of the Iowa Agricultural Experiment Station, Ames, Iowa, by Dr. William G. Murray, Reprint from State Government, April, 1955 by Dr. William G. Murray, the Appraisal Journal, XXI No. 1, January, 1953, by Bert Zuver, Book of Dr. William G. Murray on "Farm Appraisal", book of Giuseppe Medici on "Principles of Appraisal", and the book of Earl F. Crouse and Charles H. Everett entitled "Rural Appraisal".

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PART I - GENERAL

CHAPTER I

HISTORY OF RURAL APPRAISING*

Accurate and dependable appraisal of rural property has become one of the needed professional services in our modern economic system. Appraisals are needed for loans, property and inheritance taxes, condemnation, purchase and sales, and many other purposes. However, such service on a professional basis is relatively new. It has been influenced in the United States and Canada by appraisal practices long common in Europe. The motives of those who established rural appraising as a profession are important to know as a background for understanding modern appraisal system.

ECONOMIC BASIS OF VALUE

Land, or any object, has value because it is useful and because it is scarce. Air is useful but there is plenty of it, so it has no value. In the early development of the United States there was plenty of land to be had for the taking. It had very little value and there was very little attempt to appraise land.

When most of the "free" land in the United States had been taken up and it became "scarce", its usefulness or utility became important. Land came to have value and interested persons needed to measure that value, or appraise the land.

The appraiser's job is the measurement of value. Value has its background in economics, but the appraiser is not necessarily an economist. He needs to understand the economic basis of value only to be aware of his responsibility in measuring it.

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*Excerpt from Chapter I from the book of Earl F. Crouse and Charles H. Everett entitled "RURAL APPRAISALS".

Utility of Land

The economist describes utility or value as of three kinds: time, place, and form. The appraiser is concerned with two of these: place and form. They are the features within the land or rural property itself.

Time, like scarcity, is external and affects utility or value through the general economic situation. Therefore, in practical appraising the appraiser concentrates his attention on the place and form of rural property and bases has value on conditions at a given time. If economic conditions change with the passage of time, the value expressed may be raised or lowered to reflect changing economic conditions.

Value is expressed in terms of money. Fluctuations in purchasing power do not change the value, only the measuring stick. This further emphasizes the fact that the appraisal concerns itself mostly with the features of the property itself and expresses their worth in terms of money at a given time.

EARLY APPRAISALS

There have always been appraisals. Professional appraising in America as it has developed in recent decades has drawn from history and from appraisal practices in other countries.

One of the earliest known appraisal reports is in Genesis 13:10-11:

> "And Lot lifted his eyes and beheld all the plain of Jordan, that it was watered everywhere, before the Lord destroyed Sodom and Gomorrach, even as the garden of the Lord, like the land of Egypt, as thou comest into Zoar. Then Lot chose him all the plain of Jordan; . . ."

This is believed to have been about 1400 B. C.

In the historical farm literature collected by D. Howard Doane is a mortgage apparently made about 700 B. C. The security pledged was baskets of dates. Someone must have appraised the productive capacity of the date palms.

European Appraisals

In Europe appraising has been systematically done by trained appraisers for 100 years or more. In some places the work is well organized professionally.

Rural appraisers in Europe usually emphasize one or the other of two factors in measuring values: (1) the earning of the property, and (2) sale prices of other comparable properties. Appraisal practice in the United States and Canada has combined these two theories and, in addition, considers reproduction costs.

In England and Scotland, where most rents are paid in cash, it is common to base values almost entirely on the earning capacity of rural properties. Sale prices are often based on multiples of annual rentals. A Britisher might say he had "bought a field on 25 years' purchase."

In Switzerland also, earnings are emphasized. Complete and accurate production records of all farms are kept, so that information on actual yields is almost always available.

In Germany, France, and Italy, tax valuations are based mostly on earning, but appraisals for other purposes give strong consideration to comparable sales. In Germany, many benchmark or key farms have been appraised by the government as guides in making tax assessments. Appraisers use these farms as basis of comparison in valuing for other purposes, but leading appraisers adhere strongly to the theory that land is worth the price it will bring.

European practices have strongly influenced American rural appraising. Dr. C. L. Stewart, Professor of Land Economics at the University of Illinois, made extensive studies of appraising in Europe and gave liberally of his knowledge during the years when appraisers in this country were establishing common procedures and techniques.

Early American Appraisals

The first appraisals in the United States and Canada were for farm loans. The Aetna Life Insurance Company began making loans about 1850.

Until about 1920, the customary procedure was to determine what the farm had sold for or might be expected to sell for, and then to loan half that amount. This system provided adequate security for the lender as long as land values were advancing, which they consistently did during that period.

Early in the 1900's it became evident that the financing needs of our expanding agriculture were not being met. Enterprising private interests and governmental leaders began studying methods of providing better credit facilities.

In 1916 D. Howard Doane was engaged by the Mississippi Valley Trust Company, one of the large banks in St. Louis, to establish a farm loan department. The objectives was to provide safe investments for some of the bank's funds in loans that would adequately meet farmers' needs. One of the first tasks was to establish an appraisal procedure. There was practically no literature available on rural appraising in the United States up to that time.

In 1917 the Federal Land Bank system was organized. This created the first need for appraising on a national scale. The Federal Farm Mortgage Act provided for the appointment of appraisers as public officials to determine the values on which Federal Land Bank loans should be based. The Farm Credit Administration, which is the governmental agency supervising the Federal Land Bank system, became the largest employer of rural appraisers. There has always been close cooperation and free interchange of appraisal information between appraisers for federal lands and private appraisers.

PROFESSIONALIZING RURAL APPRAISING

The subcommittee on Rural Appraisals was the most active of the seven groups of the National Joint Committee on Rural Credits. Under the leadership of D. Howard Doane, Doane Agricultural Service; Hudson Burr, Aetna Life Insurance Company; P. L. Gaddis, Chief Appraiser for Federal Land Banks; and others, several meetings were held.

The result of the subcommittee's deliberations was the publication, in the Journal of Farm Economics for July 1934, of a report entitled "Standards of Practice for Rural Appraisers." This was the first joint contribution by a group of appraisers to American rural appraisal literature. Previous attempts to produce a cooperative report had resulted in failure because of the divergent viewpoints of appraisers seeking value for different purposes.

In this case the members of the subcommittee agreed that they would carry their work only as far as general agreement could be obtained. This led to the concept that there is a Basic Value common to all property. It is derived from broad general consideration of earnings, location, and home uses. From it departure can be made to find any particular kind of value desired, such as sale value, loan value, tax value, or others.

The subcommittee then concentrated on establishing methods of measuring Basic Value. In this area there was enough agreement that the committee could produce a report to which most of the members were willing to subscribe.

The idea of Basic Value was the subcommittee's most noteworthy contribution to appraisal thinking.

Following the publication of the subcommittee's report, appraisers began to follow the suggested practices. Committee members were called on to explain the report to other appraisers.

The report came to be known as the American Rural Appraisal System. The word "System" is appropriate in that it is a definite, logical, step-by-step process for measuring value.

Farm loan companies, always the largest users of rural appraisals, learned about the System and began to have confidence in it. After their bitter experiences in the early 1930's, they were trying to employ better appraisers and to use better appraisal methods. In the decade from 1935 to 1945 the American Rural Appraisal System came into wide and general use. With the establishment of well-defined principles and procedures which all appraisers could follow, rural appraising became a profession.

The creators of the American Rural Appraisal System did not intend to devise a method of appraising that would be separate and distinct from some other method or methods. The objective was to outline a procedure that would be complete and applicable in all locations and for all types of rural property. Individual appraisers and organizations must adapt the principles involved in the System to their individual needs.

The American Rural Appraisal Conference

In 1939 users of the American Rural Appraisal System organized a Conference for the purpose of exchanging experiences and refining the System. Membership was open to anyone who wanted to use the

System. Meetings were held over a period of about eight years. They were attended by representatives of life insurance companies and appraisal organizations and individual appraisers from the United States and Canada.

The work of the Conference expanded and added more details to the report of the original subcommittee on Rural Appraisals of the National Joint Committee on Rural Credits. In 1946 the Conference issued a "Statement of Objectives and Procedures." It presented the American Rural Appraisal System, revised from experience with its operation up to that time. This "Statement" is still recognized as the fundamental expression of the "American Appraisal System."

The material in the "Statement of Objectives and Procedures" of the American Rural Appraisal Conference was published as an article entitled "The American Rural Appraisal System" in the Journal of the American Society of Farm Managers and Rural Appraisers, October 1946. This was considered formal recognition of the System by the Society.

The American Rural Appraisal Conference became inactive after 1947. Its functions were assumed by the American Society of Farm Managers and Rural Appraisers.

The Appraisal Institute of Canada

Since 1932 there has been close cooperation and free interchange of information between Canadian and United States rural appraisers. Forum liaison between the American Society of Farm Managers and Rural Appraisers and the Appraisal Institute of Canada have been in effect for years.

The Appraisal Institute of Canada is the clearing house for most Canadian rural appraiser. The Institute sponsors uniform price data and publishes appraisal information much as the American Society of Farm Managers and Rural Appraisers does in the United States.

Canadian appraisers have used the American Rural Appraisal System extensively since 1935. The first public presentation of the System, as prepared by the original committee, is believed to have been made by D. Howard Doane before a group of Canadian appraisers in 1934. Later True D. Morse made a demonstration appraisal using the System at a meeting in Canada.

The American Society of Farm Managers and Rural Appraisers

In the development of rural appraising as a profession in the United States, the American Society of Farm Managers and Rural Appraisers has been a guiding spirit. Much space in the semi-annual Journal and time in Society meetings have been devoted to discussion of rural appraisals.

Membership in the Society is open to those whose work embraces a specified amount of rural appraising or farm management, either professional, academic, or research. The Society grants the title, "Accredited Rural Appraiser" (A.R.A.), upon passing an examination. The title A.R.A., has become to be recognized, not only in the appraisal profession but also among those employing appraisers, as an indication of outstanding ability and integrity.

The American Society of Farm Managers and Rural Appraisers is the predominant organization in the rural appraisal profession. Any appraiser who has sufficient activity in that field should seek membership.

The American Institute of Real Estate Appraisers

This organization has also been influential in the development of rural appraising in the United States. It is part of the National Association of Real Estate Boards, which is recognized as the leading real estate organizations of the United States. The Institute is concerned with the appraisal of all kinds of property: commercial, residential, and industrial, as well as farm property.

The Institute publishes a monthly magazine, The Appraisal Journal. Articles on rural appraising have appeared frequently.

Membership in the Institute is limited to those who meet certain qualifications of training and experience and pass an examination. Members may use the designation M.A.I. after their names.

A number of members of the Institute specialize in rural appraising. An appraiser whose interests are entirely agricultural can qualify. Some appraisers have been active both in the Institute and the American Society of Farm Managers and Rural Appraisers.

CHAPTER II

VALUE, VALUATION, AND TYPES OF APPRAISAL*

Farm appraisal is the systematic process of identifying, classifying, and evaluating the characteristics of a farm in order to make a well-reasoned judgment of its value. Value is the key word. Value constitutes not only the end product but the criterion which determines the details of appraisal procedure. Accordingly, it is to an understanding of the term value that we first turn our attention.

MEANING OF VALUE

Value, as we will use it, is a quality of worth which has the power to satisfy a human want. When we say that "A" is worth more than "B", we mean that "A" has a greater value than "B". This, value is measured by comparison; the worth of one thing in comparison with another.

Value can be either subjective or objective. By subjective value we mean the worth of a thing in the mind of an individual. John Smith considers his farm to be worth $50,000 but his neighbor thinks it is worth $30,000. The owner, in this instance, has a sentimental attachment to the farm which the neighbor does not have. Both of these values, which represent individual opinions are subjective values.

Objective, or group judgment, value is the worth of a thing in the market. It is measured by the price in dollars in a transaction between a willing buyer and a willing seller. More specifically, objective or market, value is the worth of a property measured by the price arrived at in free and open negotiations between a well-informed seller who is able, willing, and under no compulsion to dispose of his property, and a well-informed buyer who is able, willing, and under no compulsion to buy the property in question. To find this market or objective value of the Smith farm it is necessary to sell it or, as a substitute, to estimate what it would bring on the market. Let us assume that Smith changes his mind and decides to sell the farm. After an extended period of negotiations the farm is sold for $40,000. This $40,000 figure is market or objective value.

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*Excerpt from Chapter I from the book of Dr. William G. Murray on "FARM APPRAISAL-CLASSIFICATION AND VALUATION OF FARM LAND AND BUILDINGS."

Henceforth, when we speak of value without any qualifying adjective we will have reference to market or objective value. This is the common use of the term. When we are speaking of some other kind of value, such is subjective value, we will label it specifically as such to avoid misunderstanding.

APPRAISED VALUE

We come now to appraisal value. Obviously an appraisal value is not an objective market value or the subjective value of an owner or his neighbor. Is it the subjective value of the appraiser? In one sense it is, but in a more generally accepted sense it is not. It is subjective in that it is a value estimate of an individual; there is not willing-seller, willing-buyer bargain setting an objective market price. But on the other hand, an appraisal value is usually an estimate either of market value or some variation of market value. And since the appraiser is usually not interested in the property personally, it is reasonable to say that appraisal value is related more closely to objective than subjective value. Earlier we noted two subjective values of $30,000 and $50,000 for the Smith farm, and a market value of $40,000. If Smith, when he decided to sell, had called in an appraiser to appraise the farm for sale, or in similar circumstances, if a prospective buyer had obtained an appraisal for use in buying the farm, these appraisals would be estimates of objective market value. It is obvious, therefore, that appraisal values are closely related to market values. However, in the discussion on appraisal types we will see that some of the appraisal values, although related to market values, are made with a different object in mind. Consequently, we will emphasize again that when we speak of value we mean objective market value, and that when we speak of other types (such as appraisal values for loans, tax assessments, and the like), we will use the full descriptive terms to distinguish them from market values.

Valuation Methods or Approaches

There are three generally recognized valuation methods or approaches available to appraisers. They are market value comparisons, income estimates, and replacement costs less depreciation and obolescence.

All evidence on value can usually be reduced to one or more of these three sources. In farm valuation, market values and income are chief approaches because land does not lend itself to a cost valuation. The place where the cost approach enters is in farm building appraisal.

APPRAISAL TYPES

Differences between appraisal types are easy to distinguish. The specific use to which the appraisal is to be put indicates the type. Principal types of appraisal are loan, purchase and sale, tax assessment, and condemnation; each of them designed for the special purpose evident in the name.

Appraisal for Loans

The first feature which differentiates the loan appraisal is the emphasis on the long range view. The lender who hands over money to a borrower in exchange for a note and mortgage is more concerned than anyone else over the likelihood of full payment when the term expires, or if the loan is amortized, of the principal payments being met when they mature. Since the borrower may sell the farm with the mortgage on it, the ultimate criterion of payment is not so much the borrower's ability and integrity as it is the security offered. In an effort to provide the lender with the information he wants on this score, the appraiser gives special attention to at least three long-range forecasts, productivity of the farm, risks form economic and natural catastrophies, and morale of the community.

The appraiser, estimating future farm productivity, considers those factors which are most likely to result in soil depreciation, such as loss of surface soil from erosion, loss of fertility from continuous cropping, and formation of alkali deposits in the subsoil of irrigated land. The problem would be greatly simplified if it were certain that the same farmer would continue to operate the farm throughout the period of the loan, or at least until the major portion of the loan is retired. The appraiser then could restrict his study of soil depreciation to the methods followed or likely to be followed by this same farmer. But this farmer may sell the farm several years later, or move away and rent the farm to a tenant. The loan appraiser, therefore, is forced to rely on typical or most likely operation of a given farm. He will prepare his appraisal report from the viewpoint of how the typical operator in a territory handles the land, and what this means soil depreciation during the life of the loan.

Lending agencies are particularly concerned about the risk from price declines. When farm prices decline, they tend to decline more as the distance from the consuming center increases. If the price of corn crop drops from $1.50 to 75 cents a bushel on the average, a drop of less than this amount proportionately may take place in the eastern deficit area and a drop of more than this amount proportionately in the western part of the Corn Belt. Those farmers located farthest from market will experience the greatest relative decline in price because they must subtract the freight and other handling charges, which tend to remain fixed, from selling price in the consuming market. If the price of corn in the eastern market drops from $1.50 a bushel to $1.00, returns for farmers close to market may drop from $1.50 to 75 cents a bushel after deducting transportation and handling charges, while the farmers at a long distance may find that their net returns are reduced from $1.00 to 25 cents a bushel. On the other hand, the western farmer will receive a relatively greater increase when the price rises for the same reasons. It is the price decline, however, and not the price increase which has the special attention of the loan appraiser. When prices decline, the lender may take a loss. On the other hand, when prices rise, the lender cannot share in the gains. He can collect only the agreed interest and principal.

Risks from natural hazards have to be given close scrutiny in a loan appraisal. The amount of damage done by floods, droughts, and insect pests varies from one year to another. These risks belong in a different category from those of soil depreciation because they depend less on individual management. Consequently, much of the analysis of risks from natural catastrophies may be conducted by a lending agency for a whole region. This phase of appraisal would not be so difficult if more were known about the expected frequency of droughts, floods, and other calamities. Experience is still too fragmentary throughout most farming regions, however, to give satisfactory loss ratios.

Another long-range forecast is that concerning community morale. Most loan agencies realize that communities vary in the degree of sacrifice which individuals on the average will make to meet their obligations, a characteristic which may be called "community morale". The loan appraiser is interested not only in noting community morale in the past but also in predicting any change likely to take place in the future.

Purchase and Sale Appraisals

Appraisals are frequently made in connection with the purchase and sale of a farm. Buyers and sellers may make their own appraisals, in a more or less systematic manner, or they may obtain the services of an appraiser to prepare a regular appraisal report. In any case the objective is an estimate of value that can be used by the prospective buyer in making an offer or by the seller in setting a price at which he will sell the farm.

At this point the question naturally arises as to why there should be any difference between a purchase appraisal and a sale appraisal. If appraising was an exact science there would be only one value and the information desired by the buyer and the seller would be practically the same. However, appraisal is a matter of judgment based, it is true, on facts, but with variation in the amount and kind of facts selected and analyzed. Consequently, the choice of facts and emphasis which the appraiser makes in an appraisal for a prospective buyer may differ somewhat from that for a seller; although an ideal appraisal would contain all the information wanted by both a buyer and a seller.

An appraisal made by or for a prospective buyer should emphasize the productivity of the farm. It is on this point that the buyer is usually most concerned. Before he makes an offer he wants to be well informed on the farm's yielding ability, not only what it is likely to yield under his management but under an average or typical operator. Of special concern to the purchaser is the likely earnings that will be available for taxes, interest, and payments on the principal of a mortgage. Taxes and interests must be paid in addition to regular operating expenses, if the farm purchase is to be successful. This emphasis on earnings calls for a thorough going survey of the crop and livestock income possibilities of the farm, and this, in turn, demands a detailed inventory of land and buildings. The soil and buildings, therefore, are of utmost importance in a purchase appraisal. A farmer some years ago admitted that he bought a farm and farmed it for several years before he knew that almost one-half of his farm was a terrace formation underlaid with gravel at a depth of about two feet. When dry years came along he discovered this to his sorrow. Not long after, he lost this farm to the mortgage agency which had made the first mortgage loan on an appraisal which contained no information of the droughty condition caused by the gravel.

Then there are the intangible features of the farm which the prospective purchaser will usually want emphasized. A detailed description of the neighborhood, for example, comes in this category.

And different buyers will have special features which they want studied. One buyer may be especially interested in schools, another in the community, and still another in the nearest church of his preference. In contrast to these questions which a prospective farmer-buyer might ask, are those an investor-buyer might ask such as the availability of tenants, and likelihood of a rise in property taxes for new schools.

A sale appraisal, on the other hand, will have the emphasis on present favorable factors both of an income and of a non-income or non-dependable income character. This does not mean excluding unfavorable features but it does mean paying special attention to any characteristics which might attract a buyer. As an example, the farm in question might have a good physical layout in pasture, cropland, and buildings for cattle raising, and at the same time be conveniently located for selling purebred livestock. The seller in this instance may not be a breeder of purebred livestock but an appraiser should point out the possibility of attracting a cattle breeder to buy the farm. In fact, the appraiser should show that the highest and best use of the farm would be purebred operations and that the highest price could probably be obtained from a buyer wanting the farm for this purpose.

It should not be inferred from the foregoing that purchase and sale appraisals are far apart. Most of the basic physical data, including soil appraisal map, yield estimates, building inventory, and valuations at different price levels, will probably be or should be identical. The two appraisals might not coincide in handling the intangible features and in choice of the price level. The situation would be different, of course, if appraisals could be reduced entirely to a matter of facts about which no difference of opinion need exist. There have been appraisals made which give the value of a farm at some exact figure like a total of $11,621.04 or $72.63 an acre. This apparent accuracy is misleading. There can be little difference of opinion about many items in appraisal but there are many more which unfortunately are still a matter of opinion, one of the most important of which is the future course of prices. Such a situation makes it appear reasonable to have one appraiser representing the purchaser and another representing the seller. At the same time there seems to be no reason why both buyer and seller can't agree to obtain the services of an appraiser who would classify the farm, giving an independent report on the physical description or inventory of the land and buildings, because in this instance the dollar sign, which introduces many complications, would be ommited.

An ideal situation would be to have purchase and sale appraisals combined into one independent appraisal which would reflect neither the optimism of the seller nor the skepticism of the buyer, but would have the respect of both parties. Such an appraisal would give all the facts regarding land and building inventory, the amenities or intangible factors, and translate this information into land value figures for the use of both buyer and seller. Appraisals approaching this type may be provided in the future because there is considerable interest in a public appraisal system.

Appraisals for Tax Assessments

The appraisal of the tax assessor differs from that of the loan appraiser in that the tax assessor does not need to make the long-range forecasts made by the loan appraiser. But the tax assessor does something just as difficult if not more so in the actual placing or rating of all farms in one small area, each farm above, below, or on a par with every other farm. This assessment valuation is usually public information for neighbors to compare and discuss. Since appraisal is not exact, but composed of estimates and judgments, the assessor's position is obviously a difficult one.

Three tendencies are usually in evidence in valuing land for tax assessments. First, there is a tendency for any set of valuations to become fixed and to undergo little change in subsequent valuations. Second, what change does occur is likely to be downward, with some properties being reduced more than others. And finally, as with loan appraisals, there is definite evidence of an excessive concentration of valuations about the average.

The tendency of assessment valuation to remain fixed offers no difficulties in explanation. Any upward change in the appraisal will no doubt bring forth a complaint or at least a query from the owner as to the reason for the increase. The assessor, being elected directly by the people or appointed by an elected officer, feels no incentive to make upward revisions in valuations. The line of least resistance is to lower valuations if possible and, if not, then to leave them just as they are.

The practice of lowering values may be a relatively harmless method of letting the property owner down easily. If the taxing district plans to raise $100,000 in property taxes, it makes little difference, provided there is no limit to the millage, whether the land in the area is valued at $10,000,000 which would call for a tax levy of 10 mills on every dollar of property value, or is reduced to $5,000,000 which would call for a 20-mil tax. There would also be a temptation to lower assessed values if the state used the local tax valuations to levy a state property tax because the local area would benefit by putting its values as low as possible.

Assessment-sale ratios are major tools for use in checking tax assessments. The procedure is simple - calculation of the percentage which assessment is of sale price in bona fide transactions. Four precautions, however, are essential to make sure of successful use of the ratios. The first precaution is to see that only bona fide sales are used; the second is that the sales cover a period in which land prices are relatively stationary; third is that enough sales are included to provide a reliable average; and fourth is to make certain that the date of the sale is approximately the same as the date of the sale agreement because the agreement date is the important one in comparing assessment and sale price.

Condemnation Appraisals

Condemnation appraisal, although highly specialized and restricted in use, is especially significant because it may become the center of a controversy. Examples include cases growing out of the purchase of farm land by cities for the establishment of airports, and the purchase of farm land by the federal government for military purposes. A typical case is purchase of land by the state to construct new road or widen an old one. It may be necessary for the state to fall back on the right of eminent domain to obtain certain tracts of land by forcing the owners to sell. The state by using a condemnation appraisal as their base.

Fair market value is the general standard used in providing compensation to property owners in condemnation cases. Attempts have been made to find some other more generous standard to use in rewarding those whose property is taken, because the owner is forced to part with his property even though he may have strong reasons for not wanting to give it up.

A family owning and living on their farm may consider it worth three times the current market price because they have so many rich associations connected with it. Moreover, they have no great need for the money they could get by selling the farm. However, if the United States government wants this farm for a military establishment of some kind, the family has no choice. They have to give it up. If they do not like the government offer made after an appraisal has been made, they can take the matter to court.

The court will have a condemnation appraisal made and will grant a judgment based on its interpretation of a fair market value of the property.

Market value is usually stretched on the high side in condemnation cases. That is, the courts and the public generally want to see that justice is done to the person who is forced to sell his property. This means that although the value is based on a willing-seller, willing-buyer standard, it is likely to be high enough to be regarded as a very good sale if it had been a voluntary one. And there is logic behind this interpretation. Since it is well known that the estimated and actual sale prices of a property may vary, the involuntary seller of condemned property gets the benefit of the high sale price. This is usually expressed by saying that the person dispossessed through condemnation is entitled to a fair market value.

It usually happens that condemantion appraisals or valuations for highway purchase involve only a small strip from a farm. This strip may be along the present road to be used in widening the road or for dirt to build up the grade; it may be a strip through one field to make a curve in place of a sharp corner; or it may be an area through the farm for a new highway. Curves and new highways which cut up the present field system and often put a new road between the buildings and certain fields are particularly detrimental and difficult to evaluate. It is self evident that a small field is less efficient to farm with modern machinery than a large field, and that driving livestock to pasture across a new highway involves an added cost and hazard. The method to follow is to value the farm with and without the tract in question, the difference representing the value of the condemned tract. It may be desirable to consult farm management and other specialists at the state agricultural experiment station to obtain cost data and estimates on the sacrifices involved in such cases. Even then some judgment will still be necessary because it is difficult to determine how much of a drawback small triangular fields will be in the future.

Other Kinds of Appraisals

Land classification is one type of appraisal which is due for more attention. Much of the farm planning conducted by the federal and governments is based on soil conservation and land use, for which a detailed inventory of soil resources is essential.

Many types of special appraisal can be cited. Valuation of a farm to divide it among several heirs is one. Appraisal for an inheritance tax is a second. A valuation made by a farm owner to use in his farm records and for a balance sheet statement is a third use. An appraisal used by a landlord in determining a cash rental is fourth. Some landlords argue that this is unnecssary, preferring to get all the tenants will agree to pay; but a proper adjustment of rent to productivity of the farm, even if it means lower rent at first, may mean a more satisfactory and profitable agreement in the end, with the tenant farming the land as it should be farmed and not exploiting it. Every farm owner handling his farm real estate investment in a business-like manner has found, or will find, it is worthwhile to have a detailed inventory and valuation of this property.

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CHAPTER III

GENERAL PHYSICAL AND ECONOMIC FACTORS IN FARM VALUATION*

CLIMATIC CONDITIONS

Climate is a very important factor in the appraisal of farms as it affects land utilization through limiting the kinds of crops which can be produced. The principal elements of climate as it affects agriculture are precipitation, temperature and growing season, sunshine, and storms and other climatic hazards. The principal factors which determine the climate of a region or area in the temperate zone are latitude, altitude, distance and direction from large bodies of water, and location as affected by the normal path of storms.

Precipitation

The several phases of rainfall include amount, dependability or regularity, and distribution through the year. In some areas there is little change in total annual precipitation from year to year, whereas in other areas it varies widely. It is an advantage to have the rainfall mainly during the growing season. The requirements of crops grown must be related to rainfall, temperature conditions, evaporation, and type of soil.

The fact that moisture is a limiting factor means that successful agriculture is dependent upon efficient use of available moisture. The effectiveness of rainfall, as well as the results of the distribution through the growing season and of its variability from year to year, is related to the type of soil. Coarse soils having sandy or gravelly subsoils, and compact soils having very heavy subsoils, are likely to be droughty. Fine sandy loams, loams, and silt loams with subsoils of proper texture to hold the moisture will and deliver it up to the plant as needed are, on the average, the most productive.

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*Excerpts from Chapter IV of the Farm Credit Administrations' "MANUAL FOR LAND BANK APPRAISERS".

Temperature and growing season

The second important feature of the climate is the length, intensity, and regularity of the growing season. Frost lines are important in the growing of specialty crops, and, along with heat intensity belts, they are often determining in the growing of field crops, especially near the borders of specific crop adaptation belts. While latitude is the most important factor in determining the length of growing season, the influence of bodies of water greatly modifies its effect. Two areas may have growing seasons of exactly the same length, but one may have hot days and warm nights suitable to the production of a particular crop, whereas the other may have cooler temperatures which are unsuited to the production of this crop. The situation is more favorable if the length of growing season is fairly uniform from year to year than it is where there is a high degree of variability. The frequency with which off-season frosts and freezes occur is an influence which must be considered in connection with the agriculture of an area and in connection with the estimation of average yields. It is particularly important in connection with fruit and truck crops. Extremes of temperature, both heat and cold, usually have undesirable effects on livestock, crops, and living conditions.

Climatic hazards

The most far-reaching climatic hazard is drought. The frequency and seriousness of droughts in an area, and their consequent effect upon farming should be reflected in appraisals. Nearly all parts of the country are subject to drought in at least a minor degree. In the Great Plains region droughts may continue for a period of consecutive years. Their cumulative effect has been disastrous to agriculture in some areas.

Another climatic hazard is excessive rainfall. This may result in flooding, in erosion damage, or in the washing away of crops, livestock, and buildings. Continued rains may cause damage to crops in a number of ways. Extended periods of wet weather may interfere with the proper cultivation of many crops and in some instances promote the activity of crop pests and diseases. Extensive rains at harvest time account for occasional crop losses.

Some areas are subject to hail. Hail damage is dependent upon the kinds of crops grown and the time at which the hail occurs. Orchard crops are particularly subject to severe hail damage, and staple crops such as small grain or corn are especially susceptible to damage if hail occurs when the small grain is ready to harvest or when the corn is polinating.

In certain regions of the country there are storm hazards which have an important bearing on agriculture. The effect of tropical storms upon crops, and especially on tree crops, has been serious if not disastrous in places. The planting of windbreaks and other methods of protection soften somewhat the effects of storms, but their severity must be given careful consideration in those areas where they are a factor. In livestock areas of the north, and particularly where livestock is generally run without sheds, winter storms may be a cause of considerable loss. Natural protection of bluffs and trees is often of great advantage in the handling of livestock on the range.

SOILS IN APPRAISAL

Soil is basic to production. Under a given set of climatic conditions, it is the most important factor in the determination of yields. Accordingly, soil quality is closely related to land value. The important qualities in soil from an agricultural point of view are adaptation, productivity, durability, and ease of handling.

From an appraisal viewpoint, the different kinds of soil, their adaptation to different uses, the results of the utilization in different kinds of enterprises, their durability and the ease with which they are handled should be carefully considered and understood. Since soil characteristics are the major cause of variation in the productivity of lands in a local area, the appraiser must form judgments as to (1) the kinds of crops which can be grown and will be produced, (2) the acreages of crops which will be grown, (3) farming practices and operating costs, (4) the average yields which will be obtained from typical management over a period of years, and (5) the quality of product.

The more important soil characteristics are texture, depth of top soil, character of subsoil, fertility, and acidity or alkalinity. There are in addition certain other closely related characteristics such as drainage, topography, and erosion. Of these, texture is fundamental in consideration of soils.

Soil texture

The texture affects yield in a number of different ways. The capacity of a soil to absorb and hold moisture is directly related to fertility. The sands in general are relatively low in fertility, for one reason because the mineral elements usually have been leached downward. The medium-textured soils and the clays are ordinarily more fertile than sands.

For the purpose of textural classification, soil particles are separated into three group sizes: sand, silt, and clay. Soil scientists have set up definite size limits, but for a general understanding of the subject it may be said that sand is divided into course sand, medium sand, fine sand, and very fine sand. Sand gives a soil a more or less gritty feeling. Silt is intermediate in size between very fine sand and clay, and when it predominates gives a soil a smooth, velvety feeling when moist and a floury appearance when dry. Clay is sticky when wet and is hard and cloddy or powdery when dry. Practically all soils contain a mixture of sand, silt, and clay particles, and many soils contain coarser materials such as gravel and stones. The texture is rated in accordance with the predominance of these different sizes of particles.

Depth of surface soil

Depth of soil is a factor in productivity in that the greater the depth the more extensive is the zone in which roots may feed.

Subsoil

Character of subsoils is important because of its relation to absorption of moisture, water-holding capacity, but not so fine as to result in lack of permeability of water or a hardpan condition.

Adaptability

One of the most important phases of a thorough understanding of a soil is its crop adaptation. This requires a knowledge of crops and climate as well as of the soil. Involved in the adaptation of the soil for various crops are several points for consideration: (1) availability of plant nutrients; (2) the moisture supply factor; (3) drainage, position of the water table, soil depth, and soil aeration; (4) the suitability for implements required for efficient operation; (5) the effect of the crop upon the soil; and (6) freedom from chemical conditions and other special soil conditions that are harmful to the particular crop.

Productivity

Productivity depends first upon the natural fertility of the land. Fertility is a result of the combination of natural mineral elements in the soil and the elements that have been placed in the soil mass by the incorporation of organic matter, fertilizers, and amendments, which are used in the customary systems of farm operation and management in much of the country. In such areas a knowledge of soil productivity requires a knowledge of the response of the different soils to fertilizers, and of the results of using fertilizers of different kinds and in different amounts on the various crops used in different rotations and systems of farming.

It is a difficult matter to determine the fertility of soil by examination of it. It is possible to tell the difference between a soil which is high in organic matter and another which has been cropped heavily and has lost a considerable part of its organic content. Every available indication of fertility should be used in order to arrive at accurate estimates concerning it. The history of the particular farm, a thorough knowledge of the area, records of production, and crop residues appearing on the farm may all be useful in arriving at judgments concerning soil fertility and the productivity of a particular piece of land.

Whether the soil is acid or alkaline in its reaction may determine to a considerable extent what crops it will produce satisfactorily and the yields which may be obtained. In many areas liming is necessary before legume crops may be grown satisfactorily. Other crops, such as potatoes, do best on soils low in lime or slightly acid in reaction.

Durability

Durability refers to the natural ability to remain productive, as contrasted with a tendency toward more or less rapid depletion of fertility because of continuous cropping, erosion, or leaching. A soil which is rich in the essential mineral elements is able to withstand cropping for long periods without material decline in yield. However, even the more productive soils must have proper management in the form of rotation of crops, seeding of legumes, or the application of manure or fertilizer if productivity is to be maintained.

In connection with the estimation of future yields, erosion is important not only with respect to that which has already taken place, but also the amount which may be expected over a period of years in the future.

Ease of handling

Ease of handling relates to the characteristics of soils which affect operating costs, preparation of the seedbed, and cultivation of crops. The ease with which a soil may be handled is often important factor in its use and productivity, as well as in the costs of operation. Some lands may be worked under almost all conditions, while others can be handled efficiently only when moisture conditions are very favorable.

Crop adaptation, yields, soil maintenance, and ease of handling largely determine practical systems of cropping and farm management. They greatly influence the costs of operation, the income received, the net returns realized, and the value of the land.

Soil classification

Soil classification is based on the summation of the forces and factors making up the environment of a plant. Four categories are commonly used in the classification of soils: (1) series, (2) type, (3) phase, and (4) catena. A soil series is a group of soils similar in profile and developed from the same kind of parent materials. Similarity of the soil profile is based upon the similarity of the physical characteristics of the different layers, including structure, color, and texture (except the texture of the surface soil): the lime content or degree of acidity; and, to a less extent, the organic matter content. A soil series, then, is developed from a certain kind of parent material, deposited in a similar manner and acted upon by similar climatic and biologic forces and generally of similar relief.

Soil type is a determination made within a soil series on the basis of texture of the surface soil. Within a soil series there may be a number of the textural classes, which are soil types, including sand, loam sand, sandy loam, loam, silt loam, clay loam, and clay. Designations which are used to denote intermediate steps between those mentioned above include gravelly loam, coarse sandy loam, fine sand, loamy fine sand, very fine sandy loam, sandy clay, sandy clay loam, silty clay loam and silty clay.

Some soil types are characterized by different phases which affect the use of the land but do not involve a material change in the soil profile. The three most important characteristics which may cause the mapping of a phase are slope, stononess, and erosion. Certain soil types may have a hilly phase, a stony phase, or an eroded phase. The term "colluvial phase" is occasionally used to designate an area that lies along the base of a slope and has received a deep deposit of materials from the slope.

A catena is a group of soil series within a soil zone developed from similar materials but differing in characteristics of surface soil and subsoil because of differences in relief, drainage, or age.

The Soil Survey of the United States Department of Agriculture provides detailed information concerning soils in individual areas. Most frequently the surveys have been prepared on a county basis. The characteristics considered in the differentiation of soil series include either directly or indirectly the more important ones which are related to soil productivity. The principal units of classification used by the Soil Survey in mapping soils are the series and the type, and the additional unit of phase is employed in certain instances.

A working knowledge of soils

An appraiser working in a territory where soil surveys are available should learn to know all those series, types, and phases with which he is dealing. An appraiser should not depend upon the soil survey bulletins entirely for his determinations but instead should examine the land carefully and make his own classification on the basis of his knowledge and a thorough analysis of the characteristics of the soils as he finds them. Variations within the type which affect productivity, durability, and value should be noted. In obtaining an understanding of soils, background information as to origin, development, and methods of formation is useful.

In studying soils it should be kept in mind that soil types often do not have definite boundaries. Where upland and terrace come together, or terrace and flood plain join, the line of demarcation may be distinct, but often one type of soil grades into another almost imperceptibly and the boundary line drawn by the soil surveyor is more or less arbitrary. A second point to be borne in mind is that the soils of a series, while uniform in many respects, may present wide variations in productivity because of differences in such characteristics as texture, topography, depth, drainage, management, and erosion by water or wind

A variety of sources of soils information are available. The more important are the published soil surveys of the Department of Agriculture made in cooperation with State colleges, and the surveys available in the soil conservation district offices. Of more general nature is the 1938 Yearbook of Agriculture entitled, "Soils and Men," and the Farm Credit Administration has made soils manuals for some of the farm credit districts. Locally a knowledge of long-term records of crop yields and the views of experienced farmers provide additional information.

TOPOGRAPHY

Topography has a bearing upon land utilization, efficiency, and durability. It is directly related to runoff and soil erosion, to drainage, and to the use of machinery.

Topography of lands varies from level or flat to steeply rolling or rough and broken, with intermediate steps of undulating, gently rolling, and medium rolling.

A level topography is desirable under some sets of conditions. Level lands have an advantage from the standpoint of tillage operations and the use of machinery. If properly drained, they are probably more satisfactory for most types of operation than lands with any other type of topography. Gently rolling topography, however, may have an advantage, particularly in cases where there is a need for surface drainage or, in the case of fruit lands, for air drainage. If the topography is more sloping, the erosion factor becomes important and the loss of water by runoff may be considerable disadvantage. The seriousness of erosion will vary with the nature of the soil, the amount and intensity of rainfall, the season in which precipitation occurs, vegetative covering, cultivation, management practices, and other factors.

TYPE OF FARMING

The type of farming may directly affect land values by its influence on the regularity and amount of net farm income. In general the most stable types of farming, with the lowest operating risk, are those in which there is a relatively wide margin between income and costs. They are found usually where staple crops or livestock are produced, the seasonal conditions are reasonably uniform, and the markets are stable.

Most specialty crops lack the characteristic of a relatively stable price, and some staple-crop areas lack uniformity of production. This is particularly objectionable in one-crop areas where adverse weather conditions for the one main crop may result in very low income for the year. The production of intensive specialty crops such as some truck and fruit crops is ordinarily accompanied by considerable operating risk. In some areas there is likely to be considerable variation in yields and production, and prices may fluctuate greatly from year to year. Costs are usually high relative to gross income, with the result that in a year of low prices expenses may be greater than the total income. In such types of farming, management and costs of production are particularly important.

Some systems of farming maintain or even increase soil fertility. This is accomplished by rotation of crops with use of legumes, by livestock operations, cover crops, or commercial fertilizers, or by a combination of two or more of these. Other types of farming such as continuous cropping to cotton or grain with little or no fertilization will eventually result in depletion of fertility. Where there is a tendency toward erosion, continuous tillage makes this factor more serious than it would be if more pasture and hay crops were included in the cropping systems.

In connection with type of farming, distribution of income through the year may have a direct bearing on the general desirability and value of a property. As an example, dairy farming provides some income each month, even though the income may be heavier at some times than at others. Under one-crop types of farming the year's production is likely to be sold within a short period of time. A general farm is likely to have returns coming in at various times through the year.

PRODUCTS GROWN, ACREAGES, AND YIELDS

In many areas and types of farming the gross income from a farm is determined by acreages of cash crops, yields, and unit prices of the crops and products. In the case of a livestock farm or ranch, the income is dependent upon the utilization of the feed produced and prices received for livestock and livestock products. The net income in either case will be the amount remaining after expenses and fixed charges have been deducted from annual gross income. The appraiser's task in this connection involves a considered estimate of the typical use of the property over a period of years in the future, taking into account any prescribed policy with respect to acreage limitations.

The estimates of yields should reflect what may be expected over a period of years in the future, assuming typical operation of the property. In making such estimates the appraiser will assume the type of operator which the particular property may be expected to attract, and will reflect in his yield estimates any changes in productivity which may definitely be expected to take place. For example, if the farm is eroding and the conditions are such that further depletion from this cause may be expected, the lower yields that will result should be reflected in the estimates of future production.

MARKETS

Marketing has been defined as all the services and processes which are involved in getting a product from the hands of the original producer into the hands of the ultimate consumer. The principal consideration with respect to markets from an appraisal point of view are adequacy, dependability, stability, and certain marketing costs that the producer normally pays.

The adequacy of markets is closely related to the nature of the product. The dependability and stability of markets have at least two separate and distinct aspects. First is the long-time consideration which has to do with the permanence of a market for the product and the outlook for the future, and the second aspect is concerned with the uniformity of market conditions and price. There are numerous examples of areas which have "lost their market" because other competing areas have come into production. Ordinarily this does not mean a complete loss of market, but rather a reduction in price which results in operating difficulties, lower land values, and other unfavorable developments. Specialized farming has been most seriously affected in this way by competition from new areas producing at lower costs. In general, there is always a market for staples such as grains, cotton and livestock. They are sold on organized exchanges, and future markets are maintained in connection with grain and cotton. They can nearly always be sold locally at some price. Furthermore, the prices of the staple crops are much less subject to fluctuations than is the case with fruits, vegetables, and other specialties.

Marketing costs in appraisal work are those costs normally paid by the producer and they usually represent charges for transportation, etc., up to the first point of sale. Bulkiness, perishability, and distance from market are important considerations in connection with marketing costs. High costs in relation to the value of the product are likely to mean a high degree of risk in the marketing process.

NORMAL PRICES AND NORMAL COSTS

General

It is required that land bank loans be made on the basis of normal agricultural values, and in the determination of those values the normal earning power of the farm shall be a principal factor. The establishment of the normal price level for farm products and the related level of farm costs used in determining the normal earning power is an administrative function of the Farm Credit Administration. As a matter of policy, the national level for both normal prices and farm costs is prescribed by the Governor of the Farm Credit Administration, after approval by the Federal Farm Credit Board.

Normal Prices

The determination of normal farm commodity prices is a joint activity of the Farm Credit Administration and the districts. After the national level is established, a national and state prices are worked out for each farm commodity by the Research and Information Division of the Farm Credit Administration. The state prices are then used by the district appraisal offices, in cooperation with the district directors of research and the land banks, to develop schedules of normal prices on a local area basis within each farm credit district. These schedules must be approved by the Farm Credit Administration before they are adopted. After the local prices have been approved, it is the responsibility of each appraiser to adapt the local prices for the area to the farm being appraised.

National level of prices

A national level for the average of all normal commodity prices has been established on the basis of the long-term economic outlook. In establishing this level, consideration was given to expected future trends in factors such as population, farm production, farm exports, etc. Estimates of probable future price trends made by other public and private institutions also were considered. It was assumed in establishing the national level of normal prices that a program of support prices and acreage controls for farm products will be continued in one form or another. The adopted national level of normal prices is shown in comparison with actual levels of prices received by farmers in past years. (Appendix "N" US Levels of Commodity Prices Received and Operating Costs Paid by Farmers).

National prices of individual commodities

National normal prices for individual farm products have been established that are in keeping with the national level for the average of all normal prices. In working out these individual national prices, each commodity was studied separately in order to arrive at a realistic price. Consideration was given to keeping the prices of the different commodities in balance with each other. Adjustments for trends and outlook were made where necessary. Examples of national levels of normal prices in use which were estimated on this basis are shown in Appendix "P" (Normal Prices on a National Land State Basis) along with the approximate range in these prices on a state average basis.

State Prices

State levels of normal prices for each commodity were first derived from the adopted national price for the commodity in a tentative manner by setting up state normal prices having the same percentage relationships to the national normal price as actual state prices had to the actual state prices had to the national prices in a representative period. These tentative state prices then were examined for inconsistencies and for special conditions which might require some modification of the tentative price. For example, if it should be found that a state which formerly produced a surplus of a crop is no longer a surplus producing area, the normal price of the crop in that state might be adjusted upward to some extent.

Local area prices

After state average prices have been estimated, they are adapted to conditions in local areas. Within a state the price for a commodity may vary due to factors such as distance to market, quality, etc. Local area price schedules take these differences into account to the extent possible but the average of all area prices in a state should be in line with the adopted state price.

How normal prices are used in appraisals

The local area prices usually can be applied without adjustment to staple commodities like cotton, corn, wheat, etc., where the quality of the commodity produced is fairly uniform. However, in the case of some specialty crops, appraisers will make necessary adjustments in local area prices for unusual conditions. Where a farm is exceptionally close to market or under typical operation produces average quality products, the appraiser may be justified in using a higher price than used for the area generally. In other instances where a farm is distant from market, or when the farm produces commodities of inferior quality, less than the average price for the area may need to be used. Local area price schedules generally apply at the market point where farmers in the area make their sales, and cost of transporration to that point represents a farm expense. However, there are a few exceptions to this general rule, particularly in the case of specialty crops where it may be customary to quote and "in-field" or "on-tree" price, and in the case of timber a "stumpage" price.

Normal costs

Normal farm costs or expenses have been established by a procedure similar to that used in setting up normal prices. As a first step, a national normal level for all farm costs was established on the basis of the long-term economic outlook. This national level for all farm costs was carefully examined to insure that it is in keeping with the national normal level established for farm commodity prices.

National normal levels were next established for the important groups of farm costs, such as building materials, farm machinery, fertilizers, wages paid to hired labor, property taxes, etc. These various costs groups were carefully studied to keep them in balance with each other. Where necessary, adjustments were made for trends and outlook. Appendix "O" (Normal costs on a national basis with comparisons) shows a summary of these normal cost levels on a national basis with comparisons to actual levels of costs that have existed in recent years.

State levels of cost groups are derived from the national levels by comparing the state levels during a representative period with the national levels to obtain the relationships that existed. Local area schedules of individual costs items are prepared and maintained by each district appraisal office and adaptations of the normal levels are made consistent with the important types of farming.

CHAPTER IV

PRODUCTIVITY RATINGS*

One of the most promising developments in the field of soil science, as far as the appraiser is concerned, is the soil productivity rating, which designates in a single index figure the combined effect of many soil characteristics. A productivity rating commonly summarizes for a given soil type the effect on yield of surface and subsoil texture, of depth of surface soil, of fertility, reaction, topography, and drainage, a summarizing which makes it possible to compare the yield of one soil type with another.

YIELD ESTIMATES AND PRODUCTIVITY RATINGS

A system of yield predictions and productivity ratings has been developed by the United States Department of Agriculture in cooperation with some of the state agricultural experiment stations. In essence, the system is made up of detailed estimates for each soil type or soil type phase. These estimates include different levels of soil management and rotations, predicted yields in adapted crops, and conversion of these crop yields into productivity ratings. An example from the Tama County, Iowa, soil survey report will be used to bring out the various features of the rating method.

Three different levels of management were established for each of the soil type phases for which yields and a rating were desired. Roughly these levels, designated A, B, and C, correspond to low, medium, and high management. The management level, as indicated in Table 7.1, is much more exploitive than B or C. And the B level, which stops short of lime and commercial fertilizer in this example, is lower than the C management level, which in turn includes lime and commercial fertilizers.

A farmer following the A management program would have two-thirds of his land in corn every year, would not be applying any lime or fertilizers, or plowing under any legumes. Such a program is obviously an exploitive, poor type but a type which unfortunately is encountered and consequently a type which an appraiser should be prepared to handle. B management is more typical and C management represents a group of operators who are investing heavily in soil improvement practices.

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*Excerpt from Chapter 7 from the book of Dr. William G. Murray on "FARM APPRAISAL-CLASSIFICATION AND VALUATION OF FARM LAND AND BUILDINGS".

What crop yields are likely to be under the three different management levels is indicated in Table 7.2. Yields are lowest in every case on the A level and highest on the C level. C level management gives the highest yields mainly because lime, commercial fertilizer, and larger quantities of manure are used. In addition, a combination of less corn and more meadow is used in some instances as with the loamy fine sand and the eroded Tama. Such a combination means only 25 per cent of land in corn - the high money crop - as compared to 50 per cent on the B level and 66 per cent on the A level.

These management levels and yields as shown in Tables 7.1 and 7.2, are estimates and such should be used cautiously by the appraiser. When applying estimated data like these to a given farm, the appraiser has to identify the soil type phase first and then judge the past, present, and future management. For the purpose of valuation, the B level of management is the most appropriate one to use. It is not only the most common but the most stable in the sense that the yields are likely to remain about constant. On the A level, yields are liable to go down and on the C level they are likely to go up.

Productivity ratings based on individual crops can be readily calculated from the yield estimates. All that is necessary is to choose one yield as the base of 100 and relate all the other soil type yields to this base. Tama County productivity ratings for a group of eight soil type phases, shown in Table 7.3, provides a sample for this county and indicate the results that can be obtained in other areas following the same general method. All phases of Tama silt loam were included in the group shown in Table 7.3 so that these estimated yield ratings could be compared with the actual yields obtained in experimental yield tests.

Conversion of estimated yields to productivity ratings can be worked out in detail by applying the standard for corn of 50 bushels equal to 100 to the corn yields in Table 7.2. B management of Muscatine silt loam, for example, has a corn yield estimate of 60 bushels to the acre which is 120 per cent of the 50 bushel standard. And Muscatine silt loam in Table 7.3 has a corn productivity rating of 120. Similarly, Tama silt loam has a yield of 50 bushels which is 100 per cent of the standard, which gives it a rating of 100, and so on. The standards used by the United States Department of Agriculture, as given in the Soil Survey Manual, are as follows:

Corn (grain)	50	bushels
Wheat	25	"
Barley	40	"
Oats	50	"
Beans, navy	25	"
Soybeans	25	"
Buckwheat	25	"
Grain sorghums	40	"
Flax	15	"
Potatoes	150	"
Apples	200	"
Cotton	400	pounds

Bright leaf tobacco	1,000	pounds
Broom corn	600	lbs.
Corn, silage	12	tons
Alfalfa hay	4	"
Red clover	2	"
Timothy	2	"
Alsike	2	"
Sweet clover	2	"
Wild hay	1	"
Forage sorghums	4	"
Cabbage	12	"
Sugar beets	12	"
Pasture	100	cow acre days

Table 7.1
Soil Management Levels, Tama County, Iowa

Soil Type Phase	Management Level	Rotation*	Lime	Fertilizer (lbs.)	Manure (tons)	Other Practices
Muscatine silt loam	A	CCO	No	0	0	Tile, if necessary
	B	CCOM	No	0	4	-do-
	C	CCOM	Yes	0	8	-do-
Tama silt loam	A	CCO	No	0	0	None
	B	CCOM	No	0	4	None
	C	CCOM	Yes	0	8	Contour cultivation
Tama silt loam eroded gently rolling phase	A	CCO	No	0	0	None
	B	CCOM	No	0	4	None
	C	CCOM	Yes	200	8	Contour strip cropping
Chelsea loamy fine sand	A	CCO	No	0	0	None
	B	CCOM	No	0	4	None
	C	CCOM	Yes	200	8	None

*Rotation symbols: C - corn, O - oats, M - meadow

TABLE 7.2

ESTIMATED AVERAGE YIELD FOR A SAMPLE GROUP OF SOILS, TAMA COUNTY, IOWA

Soil Type Phase	Management Level	Estimated Average Yields					Probable Erosion Hazard
		Corn (bu.)	Soybeans (bu.)	Oats (bu.)	Clover (tons)	Pasture (cow-acre day)	
Muscatine silt loam	A	45	22	40	---	130	None
	B	60	26	50	1.8	200	None
	C	60	30	55	2.2	---	None
Tama silt loam	A	30	14	35	---	120	Moderate
	B	50	20	45	1.7	190	Slight
	C	65	26	55	2.1	---	Slight
Tama silt loam, eroded gently rolling phase	A	15	6	20	---	80	Very serious
	B	35	10	30	1.4	140	Serious
	C	50	18	45	1.8	---	Moderate
Chelsea loamy fine sand	A	5	2	7	---	10	Moderate
	B	7	4	10	.2	20	Slight
	C	15	8	20	.4	---	Slight

TABLE 7.3
PRODUCTIVITY RATINGS BY CROPS OF A GROUP OF TAMA COUNTY, IOWA, SOILS

Soil Type Phase	Crop Productivity Index				
	Corn (50 bu. = 100)	Soybeans (25 bu. = 100)	Oats (50 bu. = 100)	Clover (2 tons = 100)	Pasture (100 cow acre days = 100)
Muscatine silt loam	120	100	100	90	130
Tama silt loam, level phase	110	95	100	90	130
Tama silt loam	100	80	90	85	120
Tama silt loam, eroded phase	90	65	80	80	105
Tama silt loam gently rolling phase	80	50	70	75	90
Tama silt loam, eroded gently rolling phase	70	40	60	70	80
Tama silt loam, eroded rolling phase	60	30	50	60	70
Chelsea loam fine sand	15	15	20	10	10

CORN SUITABILITY RATINGS

A common practice in evaluating Corn Belt soils is use of the corn suitability rating. In reality this is a short-cut of the method just described in Tama County. Each soil is given a rating between 1 and 10, with 1 the best and 10 the poorest. For example, Muscatine silt loam is given a corn suitability rating of 1, Tama silt loam a rating of 2 and Tama silt loam, gently rolling phase, a rating of 4. A farm with 50 acres of Muscatine, 70 acres of Tama silt, and 40 acres of Tama, gently rolling, would have an over-all corn suitability rating of 2.2 if the three different soils were typical and were given ratings of 1, 2, and 4. Each soil is weighted by its area in acres. The over-all rating is a means of converting the individual ratings for different soils, both on cropland and pasture, into a single index. With the single index it is easy to compare one farm with another in soil productivity.

This corn suitability rating system can be applied readily to other crops. It works well, of course, when one crop, like corn, cotton, or wheat,predominates but it could also be used with composite crop rating plan. In such composite rating each soil would be rated from 1 to 10 in terms of its general suitability for crop production.

USE SUITABILITY RATINGS

Use suitability rating is a variation of the productivity rating, especially adapted to soils where a variety of crops are grown. An illustration is provided by the soil survey report of Perry County, Tennessee. Five suitability classes were set up and all the soils in the county classified into of these classes. The classes varied from No. 1, which was made of first class soils, to No. 5, made up of the poorest soils. In order to show specifically how this method works, three soil phases will be selected from the five classes. The three soils, taken from classes 1, 3, and 5, along with the attributes which explain their allocation to their respective class, are shown below:

Use Suitability Class	General Productivity	Workability	Conservability
1st Class			
Emory silt loam	**Very high**	**Very good**	**Excellent**
3rd Class			
Bodine cherty loam, rolling phase	**Low**	**Fair**	**Good**
5th Class			
Dandridge silt loam, severely eroded hilly phase	**Very low**	**Very poor**	**Very poor**

Productivity as used in the suitability rating refers to the capacity of the soil to produce a crop. Workability refers to ease of tillage, harvesting, and other field operations. Conservability is the ease of maintaining productivity and workability. A soil not subject to erosion would rate high in conservability.

Each of the soils was then given estimated yields under two systems of management; first, designed as A, is the prevailing management, and the second system, designated as B, is under an improved management plan. The results for the three selected soils are presented in Table 7.4. The Dandridge silt loam, severely eroded hilly phase, was rated so poor that crops would not be grown and even pasture was not suitable under present management. The contrast between this soil and the No. 1 and the No. 3 soils is especially marked.

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TABLE 7.4

ESTIMATED YIELDS FOR THREE SELECTED SOILS IN PERRY COUNTY, TENNESSEE

Crop	Class No. 1 Emory Silt Loam		Class No. 3 Bordine Cherty Loam, Rolling Phase		Class No. 5 Dandridge Silt Loam, Severly Eroded, Hilly	
	A	B	A	B	A	B
Corn, bu.	40	55	10	20	—	—
Cotton, lbs.	360	520	100	160	—	—
Peanuts, lbs.	800	900	400	500	—	—
Lespedeza, tons	1.6	2.0	.4	.8	—	—
Pasture, cow-acre days	110	150	30	45	—	35

STORIE INDEX OF CALIFORNIA SOILS

R. Earl Storie of the California Agricultural Experiment Station has devised a unique method of rating the productivity of soil. Although this method has been applied specifically to California soils, Storie considers it applicable to soils generally. The chief characteristic of this method is multiplying four factors, A x B x C x X, to obtain a final index of productivity. An explanation by Mr. Storie in his own words follows:

> "This method of soil rating, known as the Storie Index, is based on soil characteristics that govern the land's potential utilization and productive capacity. It is independent of other physical or economic factors that might determine the desirability of growing certain plants in a given location.
>
> Percentage values are assigned to the characteristics of the soil itself, including the soil profile (factor A); the texture of the surface soil (factor B); the slope (factor C); and conditions of the soil exclusive of profile, surface texture, and slope — for example, drainage, alkali content, nutrient level, erosion, and micro-relief (factor X). The most favorable or ideal conditions with respect to each factor are rated at 100 per cent. The percentage values or ratings for the four factors are then multiplied, the result being the Storie Index rating of the soil."

Table 7.5 shows how the different factors, A, B, C, and X are broken down according to detailed classification. An example of how Storie uses this factor system in rating California soils follows:

Index for Accl-CC (Altament clay loam, rolling); This is a brown upland from shale parent material; bedrock at a depth of 3 feet. Rolling topography, moderate sheet erosion, with occasional gullies.

	Ratings in Percentage
Factor A: Altament series, profile group VII	70
Factor B: clay loam texture	85
Factor C: rolling topography	90
Factor X: moderate sheet erosion with shallow gullies	70

Index Rating 70% x 85% x 90% x 70% = 37%

After the percentage rating is obtained, the soil is classified into one of six grades, each grade representing a certain range in the percentage scale. Soils having a percentage rating between 80 and 100 are in Grade 1 (excellent); between 60 and 79 in Grade 2 (good); 40 and 59 in Grade 3 (fair); 20-39 in Grade 4 (poor); 10-19 in Grade 5 (very poor); and less than 10 per cent in Grade 6 (non-agricultural).

TABLE 7.5
SOIL RATING CHART
(Storie Soil Index Rating = Factor A x Factor B x Factor C x Factor X)

FACTOR A - Rating on Character of Physical Profile

SOIL GROUP	RATING IN PERCENTAGE
I. Soils on recent alluvial fans, flood plains, or other secondary deposits have underdeveloped profiles	100
x - shallow phases (on consolidated material), 2 feet deep	50-60
x - shallow phases (on consolidated material), 3 feet deep	70
g - extremely gravelly subsoils	80-95
s - stratified clay subsoils	80-95
II. Soils on young alluvial fans, flood plains, or other secondary deposits having slightly developed profiles	95-100
x - shallow phases (on consolidated material), 2 feet deep	50-60
x - shallow phases (on consolidated material), 3 feet deep	70
g - extremely gravelly subsoils	80-95
s - stratified clay subsoils	80-95
III. Soils on older alluvial fans, alluvial plains, or terraces having moderately developed profiles (moderately dense subsoils)	80-95
x - shallow phases (on consolidated material), 2 feet deep	40-60
x - shallow phases (on consolidated material), 3 feet deep	60-70
g - ~~extremely~~ gravelly ~~subsoils~~	60-70

SOIL GROUP	RATING IN PERCENTAGE
IV. Soils on older plains or terraces having strongly developed profiles (dense clay subsoils)	40-80
V. Soils on older plains or terraces having hardpan subsoil layers	
at less than 1 foot	5-20
at 1 to 2 feet	20-30
at 2 to 3 feet	30-40
at 4 to 6 feet	50-80
VI. Soils on older terraces and upland areas having dense clay subsoils resting on moderately consolidated or consolidated material	40-80
VII. Soils on upland area underlain by hard igneous bedrock	
at less than 1 foot	10-30
at 1 to 2 feet	30-40
at 2 to 3 feet	50-70
at 3 to 4 feet	70-80
at 4 to 6 feet	80-100
VIII. Soils on upland areas underlain by consolidated sedimentary rocks	
at less than 1 foot	10-30
at 1 to 2 feet	30-50
at 2 to 3 feet	50-70
at 3 to 4 feet	70-80
at 4 to 6 feet	80-100
IX. Soils on upland areas underlain by softly consolidated material	
at less than 1 foot	20-40
at 1 to 2 feet	40-60
at 2 to 3 feet	60-80
at 3 to 4 feet	80-100
at 4 to 6 feet	100

FACTOR B — Rating on Basis of Surface Texture

Texture	Rating in Percentage
Medium-textured:	
very fine sandy loam	100
fine sandy loam	100
loam	100
silt loam	100
sandy loam	95
loamy fine sand	90
silty clay loam	90
clay loam	85
Heavy-textured:	
silty clay	60-70
clay	50-60
Light or coarsed-textured:	
coarse sandy loam	70-90
loamy sand	80
very fine sand	80
fine sand	65
sand	60
coarse sand	30-60
Gravelly:	
gravelly fine sandy loam	70-80
gravelly loam	60-80
gravelly silt loam	60-80
gravelly sandy loam	50-70
gravelly clay loam	60-80
gravelly clay	40-70
gravelly sand	20-30
Stony:	
stony fine sandy loam	70-80
stony loam	60-80
stony silt loam	60-80
stony sandy loam	50-70
stony clay loam	50-80
stony clay	40-70
stony sand	10-40

FACTOR C - Rating on Basis of Slope

Slope	Rating in Percentage
A - Nearly level (0 to 2%)	100
AA - Gently undulating (0 to 2%)	95-100
B - Gently sloping (3 to 8%)	95-100
BB - Undulating (3 to 8%)	85-100
C - Moderately sloping (9 to 15%)	80-95
CC - Rolling (9 to 15%)	80-95
D - Strongly sloping (16 to 30%)	70-80
DD - Hilly (16 to 30%)	70-80
E - Steep (30 to 45%)	30-50
F - Very steep (45% and over)	5-30

FACTOR X - Rating of Conditions Other Than Those in Factors A,B, & C

Conditions	Rating in Percentage
Drainage:	
well-drained	100
fairly well-drained	80-90
moderately waterlogged	40-80
badly waterlogged	10-40
subject to overflow	variable
Alkali:	
alkali free	100
slightly affected	60-95
moderately affected	30-60
moderately to strongly affected	15-30
strongly affected	5-15

FACTOR X (cont'd.)

Conditions	Rating in Percentage
Nutrient (fertility) level:	
high	100
fair	95-100
poor	80-95
very poor	60-80
acidity according to degree	80-95
Erosion:	
none to slight	100
detrimental deposition	75-95
moderate sheet erosion	80-95
occasional shallow gullies	70-90
moderate sheet erosion with shallow gullies	60-80
deep gullies	10-70
moderate sheet erosion with deep gullies	10-60
severe sheet erosion	50-80
severe sheet erosion with shallow gullies	40-50
severe sheet erosion with deep gullies	10-40
very severe erosion	10-40
moderate wind erosion	80-95
severe wind erosion	30-80
Microrelief:	
smooth	100
channels	60-95
hogwallows	60-95
low hummocks	80-95
high hummocks	20-60
dunes	10-40

CHAPTER V

THE RATE OF CAPITALIZATION*

Technical Premise

When the rental value has been determined, the next thing is to trace back the capital value, discounting future rental values at their present value.

If we indicate by:

R_V: the average rental value which should be obtained in each n unit of time and m times;
r: the discount rate;
then the present amount of future receipts will be given by the following formula:

$$V_o = \frac{(1 + r)^{mn} - 1}{\left[(1 + r)^n - 1\right]\left[(1 + r)^{mn}\right]},$$

from this formula, when the rental value is of a perpetual character, namely, when m is infinitely large we find that

$$V_o = \frac{Rv}{(1 - r)^n - 1},$$

and when $n = 1$, we find that

$$V_o = \frac{Rv}{r}.$$

Therefore, when once the rental value has been determined, and the rate of capitalization selected or established, this part of operation is no longer a valuation but a calculation.

Capitalization rate and interest rate

The interest on a unit of money in a unit of time is defined as the rate of interest. It is the sum of money ascribed as the value of a given object (capital value) and the sum of money obtained therefrom by loaning it for a given length of time (income); it is therefore a ratio between capital, understood as fund existing at a given moment, and income understood as an influx derived from it over a certain period of time.

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*Excerpts from Chapter VII of the Book on "Principles of Appraisal" by Giuseppe Medici.

Let us suppose we have purchased for 10 million lire a farm that yields a rental value (income) of 400,000 lire per annum, postpaid in perpetuity. In this case it will be said that a capital investment in land has been made at an interest rate of 4% (four per cent). And as the annual postpaid perpetual income of lire 400,000 has been sold on the real estate market for 10,000,000 lire, it follows that the rate of capitalization ($r = \frac{40,000}{10,000,000}$) is one hundred to four (0.04) and therefore coincides with the rate of interest corresponding to the object considered.

When it has been ascertained that the ratio between capital and income is, for instance, that of 100 to 4, namely that the capital has a market value, and therefore a price, equivalent to 25 times the annual income obtained from it (4 x 25 = 100), we are led to the conclusion that the rate of interest, considered as a number, will always coincide with the rate of capitalization. The coincidence would be missing should the rate of interest be referred to a capital other than that to which the rate of capitalization is referred.

Let us suppose that by investing one thousand lire in lands we receive 40 lire per annum, representing the rental values (price charged for the use of the capital represented by the land and improvements), and that by investing the same sum in another way we receive a postpaid perpetual annuity of lire 40, likewise net of all charges. From a purely financial point of view the two investments are of equal value. As the market value of the land from which the 40 lire are obtained is one thousand lire, so the value of the postpaid perpetual annuity of 40 lire is sold for 1000 lire.

Both statements are based on the fact that the ratio between income and capital is that of the one hundred to four, namely the capital is worth or is valued at 25 times its annual income.

Why there are different rates of capitalization

Considered from a general standpoint, under conditions of economic equilibrium, capitals producing the same net incomes have the same market price. WALRAS, indeed, inquires why on earth one should not purchase at prices two or three times higher, capital values producing two or three times net incomes. That should be the case at least under normal or ideal conditions which are those of market equilibrium for capital values. The ratio between the income from a property and its market price, namely rate of capitalization, is therefore a ratio common to all properties in a state of equilibrium. When we have ascertained it, we shall therefore have ascertained the price of all capital values.

Were we to carry into practice WALRAS' proposition, - unexceptionable in its logical formulation - we should be brought to the conclusion that the market price of properties for sale is obtained by capitalizing their respective net incomes at one and the same rate. By so doing we should apply to the varying realities of the market a scheme which, while useful as affording a directing line, is certainly far too general to be applicable to individual cases.

It is obvious that were we to apply the scheme we have described we should be neglecting at least those individual inclinations in regard to the investment of capital that explain why on the market different investments are differently remunerative.

The following example will help to make our meaning plan.

Let us suppose two different groups of men. The one consists of persons desirous of living a quiet life, who avoid investments that may yield high profits but entail uncertainty and risk. The other consists of energetic pushing men. Although aware that in trying to grow rich they run the risk in impoversing themselves, they engage in difficult undertakings and seize favourable opportunities. These two different types of men will prefer different kinds of investments.

Let us suppose that both have at their disposal a sum of 100,000 lire and that two opportunities for investment offer, presenting the following characteristics:

1. (a) the mathematical probability of losing the sum in a single year is 2%; the insurance premium is therefore 2,000 lire;

   (b) the income gross of insurance premium is 8,000 lire;

   (c) the net income is 6,000 lire;

2. (a) the mathematical probability of losing the sum in a single year is 20%; the insurance premium will be 20,000 lire;

   (b) the income gross of insurance is 26,000 lire;

   (c) the net income is 6,000 lire.

While the first group of prudent men will chose the first of these investments, the adventurous spirits of the second group will prefer the second.

Now, as the price that each of these groups is prepared to pay to obtain the capital mentioned will be influenced by their psychology, the rate of capitalization of the two types of investment will differ. And it is not a question only of an individual capitalization rate, because the prevalence of one or other of the two groups on the market may be the cause determining the different price charged for some capitals as compared to that charged for others.

For this reason, therefore, the rate of capitalization varies from one form of capital to another, related as they are the characteristic features of the investment and to the ends the purchasers have in view.

The rate of capitalization of individual economic goods depends also on their greater or lesser movability, or on the greater or smaller possibility of reproducing them.

There are some economic goods such as automobiles, furniture, buildings, and so forth, that can be obtained in a short time even in large quantities; there are others such as forests, that take long periods of time to grow; and there are others the volume of which is practically steady, and such are farm properties in old agricultural countries on lands that have been completely reclaimed.

In order to study the behaviour of these categories of economic goods when brought face to face with a variation in the ruling market price system, let us suppose for the moment that the rate of capitalization is the same for all forms of capital.

The variation that has occurred in the price system will bring to the individual owners of the goods mentioned profits (or losses) related to the greater or lesser movability of the capital owned.

Forms of capital that can be readily converted into cash, enable their owner to take advantage of the favourable opportunities offered by the market, for he can rapidly exchange present investments for others which, under the altered economic situation, can procure him the higher return. Should the prices of certain movable goods rise, the facility with which they can be reproduced enables the owner to take advantage of the special economic situation that has been created only for a short time, for the large volume of new production will probably depress prices and may lead to the cancellation of the profit.

On the other hand, the owners of farm properties sometimes enjoy a quasi-monopoly. Owing to the immovability and the limited possibility of reproducing such properties, there is as a rule no active competition that can depress prices in the sense referred to.

But while competition cannot directly affect the property itself (the capital), it acts through the products obtained from the farm, such as wheat, wine, oil, meat and so forth.

PARETO, in his "Cours", remarks that those who wish to enjoy personally certain forms of capital can move to the places where they are found, or can import their products. The first case occurs when rural populations emigrate and instead of persisting in the fierce competition that occurs among those who wish to purchase or rent farm lands, prefer to move to new lands which are thus brought into competition with the old ones. In the second and more frequent case there is the competition of farm products imported from the different countries. This the arable lands of Europe suffer more or less severely from the competition of those of America and Australia.

The circumstances above mentioned and the opposing forces that stand in the way of free competition and therefore of a complete economic equilibrium, help to explain why the rate of capitalization differs generally from one investment to another.

We may answer the question raised in this paragraph -Why are there several rates of capitalization?,- by the following conclusive answer:

Properties of the same description (for instance, farms) though able to supply the same cash income, may, under diverse economic and social conditions, have different market prices. This means that a like promise of a like future income may be paid in diverse measure. In other words, properties yielding the same cash income may have different rates of capitalization.

The real estate market offers situations that illustrate this assertion.

For instance, the lands of the lower plain of Lombardy, pay the landowner an annual rent, had in the three-year period 1937-1939 a capitalization rate of 2.5%, while the South Grosseto Maremma lands, also operated by tenants, had during the same three-year period a capitalization rate of 5%. This means that for investments of the same description in the same country, net incomes of 100 lire were and are paid respectively 4,000 lire in the lower plain of Lombardy and 2,000 lire in the Maremma district.

The reasons accounting for this marked difference in the rate are to be found primarily in the different socio-economic environment in which the properties considered are located. The former are in a densely populated and active district, near to large cities, served by numerous and well-kept ways of communication, with ample and steadily increasing capital resources; the latter are in a sparsely populated and partly malarious area, far from large towns or important populated centres, without industries, and very deficient in new capital resources.

Other reasons that explain the difference in the rate are set forth in the following paragraph.

The selection of the rate of capitalization

It is then clear that by capitalizing the net income of different kinds of properties at the same rate, one does not ascertain the market value of the individual properties. The general assertion of capitalization at a single rate may be true only if referred to the general average of all investments.

When we analyze the facts they show that the differences in the rate of capitalization are not however so marked as one might sometimes be led to believe. When we bear in mind the uncertainty of some incomes, the probable duration of some concerns, and draw therefrom all deductions, we find that the rate of capitalization does not fluctuate very widely.

For this reason the problem of selecting the rate of capitalization of farms finds its first solution in the fact that the price for the use of any kind of capital, namely, the rate of capitalization, is determined at least preliminarily and as a first approximation to the real rate, in the same way as is used for determining the rate of all other forms of capital. In other words, we find in the procedure for determining the price of landed property a kernel of uniformity common to all other properties sold on the market.

It is generally believed - and in many cases facts confirm the belief - that the rate of capitalization of farms is lower than that of other forms of property. This is so, not only because they enjoy a high degree of security, but because they can provide the owner with indirect advantages or conveniences which, at least in the past, often raised the demand very markedly, thus leading to a rise in the market price accompanied by a lower rate of capitalization.

The rate of capitalization of lands varies considerably from one zone to another, depending on the state of the lands (buildings, communications, water system, tree and bush plantations), on the farming systems, on the presence of processing tracts. Variations in the price of individual farms within the same agricultural area, in which the above mentioned factors may considered constant, may depend on their size, on their subdivision into several lots, on the location of the buildings and their structure, and on other circumstances directly affecting the value of the farm but not the income obtained from it.

LOCKE's remark that no kind of property offers such disconcerting incongruities between capital value and net income as farms shows that two centuries ago the phenomenon we have been discussing had already struck the philosophers of that day. It is well known to real estate dealers, agriculturists, and all those who are engaged in land conveyancing. The following page written by NICCOLINI, who studied agrarian problems in the province of Ferrara, calls attention to some of its stricking aspects:

"Is the market value of lands always related to their real economic value? No. At a first state it is almost solely affected by the most elementary of economic laws, that of operating at the first stage, and as a result of which the market price may remain quite independent of the intrinsic value of the land. At a second stage, another economic law comes into play, that of the normal capitalistic investment, namely that which balances the ratio between capital and income. At a third state, a third law makes itself felt, - a less simple, indeed a very complex one - partly economic, partly related to a certain individual of psychology, and partly to special political and social situations. It is the law of differentiation and of the special preferences of capitalistic investments, a preference varying with individual tastes, with social status, environment, and historical periods. This is the general rule, for in special cases, anything but infrequent, the price is not determined by intrinsic value but by personal considerations, the "it suits me" price, the price paid to satisfy an ambition, while at other times flight from other forms of investment may raise the figures to acrobatic heights".

Other conditions being equal, the rate of capitalization is lower when the "conveniences" offered by the farm are marked, such as its vicinity to large centres and to lines of communication, the salubrity and beauty of the place a felicitous location, the peaceable character of the population, sound social relations. Other factors that tend to lower the rate are the moderate size of the farm, which makes it accessible to a large number of purchasers, the presence of a numerous and well-to-do-class of small land-owners; or small leaseholders, or prosperous share tenants. On the other hand, the rate tends to rise as a result of causes the opposite to those just mentioned. Very high rates, such as, for instance, 7 and

8 per cent are met with malarious districts, sparsely populated and lacking in means of communication. The rate also tends to increase, that is the value of the land declines, in districts peopled by turbulent agricultural proletariat and where the syndical organization of labourers, share-tenants, and small tenants is strong and inured to conflict. This is due not only to the fact that there is less competition among the workers, but also to the formation of new social conditions in the country districts which gradually reduce those indirect advantages or conveniences so often referred to by writers on farm appraisal.

To be an appraiser, a man must have a thorough knowledge of the market on which he exercises his profession, and then, after acquainting himself with the average rate of interest quoted on the market for land investments in general, he may ascertain the specific rate for the farm that interests him by calculating the average rate for similar properties.

If we indicate by R_{v1}; R_{v2}; . . . . R_{vn}, the rental values of farms for which the price paid was V_1; V_2; . . . . V_n, we shall have:

$$\frac{V_1}{R_{v1}} = r_1; \ \frac{V_2}{R_{v2}} = r_2; \ \ldots\ldots; \ \frac{V_n}{R_{vn}} = r_n,$$

and the average rate will be found to be:

$$r = \frac{V_1 + V_2 + \ldots\ldots + V_n}{R_{v1} + R_{v2} + \ldots\ldots + R_{vn}}$$

In such a case, if the rate of capitalization of the property to be valued is ascertained by means of the ratio formed between values quoted on the market and rental values determined by applying the "tornaconto" equation, we shall find that the analytical appraisal has become a valuation partaking of the nature of a comparison, made by comparing the farm in question with similar ones whose market value is known and for which the rental value has been ascertained. Substantially, it is a case of an appraisal made by the comparative method, in which the parameters of comparison are supplied by the land value and the rental value.

Ascertainment of the rate may be facilitated by studying the behaviour of the rate of interest on economic goods competing with farms or having features in common with them.

Unfortunately the investments to which one can generally have recourse for drawing such comparisons differ in character from land properties, both because the latter are governed by a market of their own, dependent on the type of enterprise, the form of ownership, the nature of the land, and because the former as a rule maintain a uniform character and being undifferentiated, lend themselves to being handled in bulk. Not for this do we deny the utility of drawing a further comparison, for instance, with the rate of interest on land-credit bonds, but it should be noted that the determination of the capital value made by this means may very easily - indeed more frequently than not - lead to values that will differ considerably from the market value. While the special farm considered has its own characteristics, the rates of interests on movable goods refer to uniform securities, and therefore the datum will be an average one.

We must therefore be on our guard against over simplication and unwarranted comparisons, because many investments which are described in the conventional language of hack writers as competing with farm real estate, really follow their own market trend.

Comparisons can be useful when they are made with due discretion. They serve to ripen the judgment the appraiser must form since the selection of the rate of capitalization is a very important part of the judgment in which appraisal consists.

In closing this examination of the rate of capitalization, it will be well to address a word of warning to those who, while exercising the difficult profession of appraiser - which, as BRIZI remarks sometimes requires the keenness of a lawyer and sometimes the impartiality of a judge - would like to be able to sum it all up in a formula, system or receipt, to be applied case by case. The whole treatment of the problem we are studying shows that if as a rule this is never possible, it is least of all so when one has to select the rate of capitalization.

In matters of appraisal the Socratic teaching shines more than ever with the light of truth: "First he did not know.....but he thought he knew... now he doubts, he does not know and does not think he knows... Do you think he would have undertaken the search if first he had not begun to doubt, and if, made aware of his ignorance, he had not desired to know?"

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PART II - FARMERS HOME ADMINISTRATION

CHAPTER VI

LOAN SERVICES OF THE FARMERS HOME ADMINISTRATION*

PRODUCTION AND SUBSISTENCE LOANS ARE USED TO OBTAIN RESOURCES NEEDED TO BECOME SUCCESSFULLY ESTABLISHED IN FARMING

To Be Eligible An Applicant Must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.
2. Be a citizen of the United States and of legal age.
3. Have good character.
4. Have the necessary experience or training and managerial ability to operate a family-type farm.
5. Own or rent adequate land resources to carry on successful family-type farming operations.
6. Plan a system of farming to provide adequate volume of production.
7. Indicate tha he will endeavor honestly to carry out recommended farm management practices.

Loan Funds May Be Used To:

1. Purchase essential farm equipment and productive livestock.
2. Pay necessary farm operating and family living expenses.
3. Make minor real estate improvements.
4. Pay secured debts on livestock and farm equipment when necessary in connection with a loan for other purposes.

Farm Management Guidance Is Provided In:

1. Developing long time and annual farm and home plans that provide for a sound system of farming.

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*Source: Unnumbered FHA Instructions, issued December, 1955.

2. Making needed adjustments in farming operations and completing farm improvements.

3. Adopting approved farm and home practices.

4. Keeping farm and home records.

5. Making wise use of income including orderly repayment of debts.

6. Making yearly analysis of farm and home business as a basis for further improving the farm and home business.

Loan Terms And Repayment Policies Are:

1. Interest rate is 5% on unpaid principal.

2. Single loans up to $7,000 if total P & S debt will not exceed $10,000.

3. Amount borrowed for operating expenses to be repaid from the years income.

4. Amount borrowed for capital goods scheduled for repayment in annual installment not to exceed 7 years.

5. Amount and time of repayment determined by availability of income for debt payment.

6. No additional P & S loans may be made after 7 years continuous indebtedness.

Security Requirements Are:

1. A first lien on productive livestock and farm equipment purchased or refinanced.

2. The best lien obtainable on productive livestock and farm equipment owned.

3. A first lien on crops and assignments on some items of income.

4. A subordination agreement by landlord when needed.

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FARM OWNERSHIP LOANS ARE USED TO ASSIST FARM FAMILIES TO BECOME SUCCESSFULLY ESTABLISHED ON ADEQUATE FAMILY-TYPE FARMS

To Be Eligible An Applicant Must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.
2. Be a citizen of the United States and of legal age.
3. Have good character.
4. Have the necessary experience or training and managerial ability to operate a family-type farm.
5. Unless a veteran, obtain or recently have obtained a major portion of his income from farming operations.
6. Have resources of livestock, machinery, equipment, and operating capital to successfully operate the family-type farm or have available a source of credit for acquiring such resources.
7. Indicate that he will endeavor honestly to carry out recommended farm management practices.
8. Be, or plan to be, as a result of the loan, a full-time farmer.

Loan Funds May Be Used To:

1. Buy an adequate family-type farm or buy land to enlarge an undersized farm.
2. Provide necessary water, and water facilities.
3. Provide basic land and soil improvements.
4. Construct, repair, and improve buildings necessary for successful operation of a family-type farm.
5. Refinance debts on a farm owned by an applicant when such refinancing is not the primary purpose of the loan.
6. Pay authorized fees.

Farm Management Guidance Is Provided In:

1. Developing long time and annual farm and home plans that provide for a sound system of farming.
2. Making needed adjustment in farming operations and completing farm improvements.
3. Adopting approved farm and home practices.
4. Keeping farm and home records.
5. Making wise use of income including orderly repayment of debts.
6. Making yearly analysis of farm and home business as a basis for further improving the farm and home business.

Loan Terms And Repayment Policies Are:

1. On insured loans, 3-1/2 percent interest and 1 percent loan insurance charge on the unpaid principal.
2. On direct loans, 4-1/2 percent interest on the unpaid principal.
3. Payments are due on January 1 each year. Borrowers are encouraged to build reserve by paying ahead of schedule.
4. All loans are for 40 years except that building improvement loans may be made for shorter periods.

Special Requirements Are:

1. Loans are made only on family-type farms personally operated by the owner on a full-time basis.
2. Loans cannot exceed the county average value of efficient family-type farms.
3. Loans cannot exceed the value of the farm established by the Farmers Home Administration county committee based on an earning capacity appraisal report.

4. Insured loans are limited to either 90 percent of the county committee's valuation of the farm, or 90 percent of the total cost of acquiring the farm, whichever is less.

Security Requirements Are:

1. A first real estate mortgage only for an insured loan.
2. A first or second real estate mortgage for a direct loan.
3. Buildings insured against loss by fire or other casualties.
4. Real estate taxes must be paid.

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SOIL AND WATER CONSERVATION LOANS ARE MADE TO IMPROVE, PROTECT, AND MAKE BETTER USE OF FARM LAND

To Be Eligible An Applicant Must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.
2. Be a citizen of the United States and of legal age.
3. Have a good character.
4. Be an owner or operator of a farm.
5. Have farming operations comparable to those of persons primarily engaged in farming.
6. Nonprofit organizations, such as incorporated water users' associations are eligible for a loan when they are unable to obtain adequate credit elsewhere and meet certain other conditions.

Loan Funds May Be Used To:

1. Carry out approved soil conservation practices.
2. Develop irrigation systems.
3. Develop farmstead water supply systems.

4. Develop drainage systems.

5. Pay authorized fees.

Loan Terms And Repayment Policies Are:

1. For insured loans, 3-1/2 percent interest and 1 percent mortgage insurance charge on the unpaid principal balance.

2. For direct loans, 4-1/2 percent interest on the unpaid principal balance.

3. Loans are repayable in 1 to 20 years, depending on ability to pay and security given.

4. Repayments are scheduled in equal annual installments except that, when necessary, the first or first two installments may be scheduled for interest only.

5. Loans to an individual cannot exceed $25,000.

Special Requirements Are:

1. Loans are made only when the use and disposal of water comply with Federal, state, and local laws and regulations.

2. Supervisory assistance is given to the extent necessary to assure repayment of the loan, establishment of the improvement or facility, and maintenance of the security property.

3. Practices financed only when in accordance with Extension Service and Soil Conservation Service recommendations.

4. Each applicant is responsible for obtaining plans, specifications, and cost estimate for the planned improvement or facility.

5. When real estate is taken as security, property insurance will be required.

Security Requirements Are:

1. A short-term loan is secured by either a real estate mortgage, chattel mortgage, or both.

2. A long-term loan is secured by a real estate mortgage.

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SPECIAL LIVESTOCK LOANS ARE USED TO PROVIDE EMERGENCY CREDIT TO ESTABLISH PRODUCERS OF CATTLE, SHEEP, AND GOATS

To Be Eligible An Applicant Must:

1. Be an established producer of cattle, sheep, or goats.
2. Be unable temporarily to obtain needed credit from banks or other responsible sources.
3. Have a good past record of livestock operations.
4. Have good character.
5. Have the resources, experience, and managerial ability deemed necessary for the success of the operation.
6. Have reasonable prospects of repayment and return to private credit.

Loan Funds May Be Used To:

1. Purchase or produce feed for livestock owned.
2. Pay essential operating expenses, including labor and living costs.
3. Purchase livestock for replacement or restocking.
4. Pay grazing fees and rest for pasture and land which feed is produced.
5. Hire, repair and replace farm or ranch equipment and machinery.
6. Build or repair fences.
7. Pay costs of transportation livestock, including to and from grazing lands.
8. Repair or improve water supplies necessary to the livestock operation.

9. Pay cost of normal maintenance of farm and ranch buildings.

Loans May Not Be Made To:

1. Refinance existing debts.
2. Produce cash crops.
3. Finance a commercial feed lot operation.
4. Enable a borrower to expand substantially his normal operations.

Loan Terms And Repayment Policies Are:

1. Interest rate is 5 percent on the unpaid principal.
2. Loans for annual operating expenses to be repaid from year's income.
3. Loans for livestock purchases to be repaid over longer period but not to exceed 3 years.

Security Requirements Are:

1. Loans to corporations or other business organizations will be secured by the personal obligation of each person owing 10 percent or more of stock.
2. The best lien obtainable on all livestock and equipment owned when the loan was made.
3. A first lien on livestock and equipment purchased with loan funds.
4. The best lien obtainable on all crops.
5. When necessary, the best lien obtainable on all real estate.
6. Nondisturbance of agreements from creditors.
7. Agreement for division of income when livestock is subject to a prior lien.

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1. Purchase feed, fuel, seed, fertilizer, and farm and home supplies.

2. Replace livestock lots in the disaster.

3. Replace or repair farm and home equipment.

4. Replace or repair buildings, fences, drainage or irrigation system damaged as result of the emergency.

5. Level land and remove debris resulting from the emergency.

6. Pay current taxes on real property when necessary.

7. Pay water charges necessary to the operation.

8. Make minor repairs or improvements to farm water supplies.

9. Pay labor, machinery hire and other essential expenses.

Loans May Not Be Made To:

1. Refinance existing debts.
2. Pay cash rent.
3. Enable borrower to expand his normal operations.

Loan Terms And Repayment Plans Are:

1. Interest rate 3 percent on unpaid principal.
2. Loans for production of crops repaid as crops are sold.
3. Loans for feed repaid as livestock or livestock product are sold.
4. Loans for replacement of equipment, building repairs, or similar purposes, may be scheduled over a longer period.

Security Requirements Are:

1. A first lien on crops produced with loan funds.
2. A first lien on livestock and equipment purchased with loan funds.
3. The best lien obtainable on all other crops.
4. When necessary, the best lien obtainable on livestock and equipment owned when loan was made.
5. When necessary, the best lien obtainable on real estate.
6. Agreement for division of income when livestock is subject to a prior lien.

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CHAPTER VII

RECEIVING AND PROCESSING APPLICATIONS*

The County Supervisor is responsible for seeing that all persons making inquiry about FHA services are given information relative to such services. Some methods which may be used for answering inquiries and informing prospective applicants are:

1. Individual interviews.
2. Correspondence.
3. Distribution of pamphlets, leaflets, and other written statements.

Applications will not be solicited under any circumstances. Such devices as form letters, advertisements in newspapers, or other notices of any kind by FHA personnel requesting persons to make applications are strictly prohibited. Except for Soil and Water Conservation loans to associations, wherever the term "applicant" appears herein, it shall be construed to mean applicant family.

Receiving Applications

Applications for FHA assistance will be filed in the County Office serving the area in which the farm to be operated or improved is located; however, if an applicant for an Emergency (EM) or Special Livestock loan will operate two or more farm units in different counties, his application ordinarily will be filed in the County Office serving the county in which he resides.

All persons seeking assistance from FHA will be encouraged to file written applications. The filing of written applications should be encouraged even though funds may not be currently available since applications will be considered in the order received.

"Application for FHA Services" Form will be used by all applicants for initial and subsequent Farm Ownership (FO) loans. It will be used by all applicants for initial operating loans except where an "Application for FHA Services" Form is on file and provided there is sufficient current information available to permit the County Committee to determine the qualifications of the applicant. "Application for FHA Services" Form also will be used by all applicants for initial and subsequent Soil and Water Conservation loans except in the case of Soil and Water Conservation loans to associations. (1) Each group applying for Soil and Water Conservation loan to an association will make a preliminary request for assistance in accordance with FHA Instruction on the matter. (2) Applications for subsequent Production and Subsistence, Emergency, and Special Livestock loans will be handled in accordance with FHA Instructions 441.3, 445.1 and 448.2, respectively.

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*Source: FHA Instructions 410.1

County Office Clerks ordinarily will be responsible for receiving applications and giving a preliminary explanation of services available through the FHA. Applicants will be requested to complete the application will make sure that is properly completed, dated, and signed and will give whatever assistance is necessary.

Supervisory personnel will discuss with each applicant the type (s) of assistance that appears best suited to his particular needs. The nature of the discussion and the type of information given will vary with the individual depending upon what the applicant already knows about the FHA and the interviewing employee's knowledge of the applicant. In some instances the kind of assistance best suited to the applicant's needs and for which he may be eligible will be evident. In such a case, it will not be necessary to discuss with him all the types of assistance that are available. On the other hand, a full explanation regarding the various types of assistance available that may meet the applicant's needs and for which he may be eligible should be given in any case where there is some question about the type of service best suited to his particular situation. As much additional information about the family as feasible also will be obtained.

If, after dis cussing with the applicant his credit needs and the types of services available, it appears that a Production and Subsistence or Emergency loan may meet his needs, the applicant's certification for the appropriate loan will be executed. For Farm Ownership and Soil and Water Conservation loans, the appropriate certifications will be executed in accordance with the applicable loan processing instructions when the loan docket is being developed.

Processing Applications

In obtaining information concerning applicants and evaluating their qualifications, FHA personnel will be governed by established policies for the various types of assistance by the Farmers Home Administration.

Applicants will be investigated and submitted to the County Committee for consideration and otherwise processed in the order received except as modified for veterans' preference policies.

The County Supervisor will verify the information furnished by the applicant and assemble additional information needed to evaluate properly the applicant's qualifications and credit needs. Information may be obtained and verified from County Office records, by personal contacts with or letters to informed sources such as neighbors, bankers, merchants, landlords, and visits by supervisory personnel to applicant's farm. If derogatory information is received concerning the applicant, and it is considered necessary to obtain further information concerning the applicant, and it is considered necessary to obtain such information from other Departments of the Federal Government, the County Supervisor, unless specifically authorized in FHA Instructions to obtain such information direct from other Departments of the Government, will report the facts in the case to the State Director. If the State Director considers it necessary to obtain such information, he will report the facts to the National Office with a request that the data be obtained. Information obtained as a result of these inquiries and observations will be recorded on the back of "Application for FHA Services" Form or an attachment when necessary.

The County Supervisor will analyze the applicant's loan request, giving careful consideration to his experience, abilities, resources, and credit needs, and will tentatively determine which loan authorities - Farm Ownership, Soil and Water Conservation, Production and Subsistence, Special Livestock, and, in applicable areas, Emergency will most effectively meet the applicant's needs.

After tentatively determining which loan authorities will most effectively meet the applicant's needs, the County Supervisor will present the application to the County Committee or Special Livestock Loan Committee for consideration. It is expected that the necessary preliminary investigation will be made and the application will be presented to the Committee for consideration at its next meeting. Ordinarily this should be done within a 15-day period, but not later than 30 days. However, when unusual circumstances such as the need for additional information prevents final Committee action within 30-day period after the application is filed, the applicant will be notified of the circumstances causing the delay. In the case of tenant applicants who have not leased a farm,but who in the opinion of the Committee otherwise are qualified, the County Supervisor will notify the applicant that final committee action will be delayed until further information is received concerning the farm to be operated. The Committee will interview applicants whenever it is considered necessary for arriving at proper recommendations. This will be done by having the applicant appear at the Committee meeting. After all pertinent facts are available, and the interview with the applicant is completed, the Committee, in the absence of the applicant, will take action on the application.

The County Supervisor will take the following action immediately after the Committee's decision regarding the applicant's qualifications: (1) If the Committee action is favorable, the County Supervisor will proceed in accordance with the applicable loan processing instructions. In the case of a Farm Ownership loan applicant who has not selected a farm, but who in the opinion of the County Committee is otherwise eligible, the County Supervisor will notify the applicant that preliminary action has been taken on his application but final action will be delayed until he has located and optioned a satisfactory farm. In such case further loan processing actions will not be taken until the applicant has located a farm. (2) If the Committee's action is unfavorable, the County Supervisor will notify the applicant in writing. The rejection letter will include: (a) A statement of the basic policies involved in the individual case. (b) The specific reasons why the applicant did not meet the requirements expressed in the basic policy statement; however, when personal factors are involved, such as honesty and integrity, it may not be advisable to give the specific reasons in the rejection letter. (c) An invitation to call at the County Office on office day for the purpose of discussing in detail with the County Supervisor the reasons for the rejection. When it appears the applicant may be able to remove the factors which caused the rejection, the letter will also invite the applicant to discuss these factors with the County Supervisor.

Those applications received when Production and Subsistence or direct Farm Ownership funds are not available for processing loans will be investigated and presented to the County Committee for consideration. Applicants who are ineligible will be advised accordingly. Those for whom Committee action is favorable will be notified that funds are presently exhausted but their applications will be held for consideration until funds are available. In addition, the required certification for Production and Subsistence loans will be executed by the County Committee. When funds become available for processing loans to such applicants, they will be notified by letter that funds are available. Such notice to the applicant will also provide that he should advise the County Office within 15 days if he is still interested in obtaining the loan originally applied for, otherwise his application may be withdrawn. If the applicant still indicates a desire to obtain a loan, the County Supervisor will review the application with him and if there have been any significant changes that would affect the eligibility of the applicant, the County Supervisor will obtain necessary current information and present the application to the County Committee for reconsideration.

Applications will remain in effect until withdrawn, rejected, expired, or the loan is made. An applicant may voluntarily withdraw his application at any time. When a loan will not be made for such reasons as the applicant's obtaining credit from another source, lack of further interest on the part of the applicant, or similar justifiable reasons, the Committee may at its next meeting reject the application, and in such cases the applicant will be notified of the reason for the rejection.

Committee minutes will show the action taken on each application and except where operating loans are involved, the reasons for the rejection of any application. The reason for rejecting an application for an operating loan are required to be shown to the Committee certification executed in connection with the application.

Reaching an Understanding

FHA lending experience has clearly demonstrated that success in helping farm famililtes depends in large measure on reaching a thorough understanding with each applicant family before a loan is approved. A proper understanding will be obtained with all applicants with respect to the basic loan making and servicing, the responsibilities of borrowers, and the benefits that may be expected from FHA assistance. To obtain a proper understanding, explanations may need to be repeated in some instances. The applicant should not be rushed into a decision but should be given time to make all necessary basic decisions.

Proper understandings may be reached with applicants through: (1) individual interviews with County Office personnel. The process of arriving at an understanding will begin on the occasion of the first interview with the applicant. He will be given an attentive and sympathetic hearing with ample time to discuss fully his problems and needs. County Office personnel will explain clearly how his needs may be met and his situation improved through the services of the FHA. Arrangements will be made for subsequent discussions until the County Supervisor is satisfied the applicant has obtained proper understanding. (2) Applicant interviews with the Committee. Each applicant will be given an opportunity to appear before the County Committee or the Special Livestock Loan Committee to discuss any questions relating to his loan application or the FHA program. (3) Group meetings. The most effective method of assisting applicants to obtain a proper understanding of the FHA program is through group meetings. Effective group meetings can be held with three or more applicants. Through group meetings applicants get the benefit of explanations given to questions raised by other applicants. Requirements for loans can be presented more impersonally in group meetings and they generally are more acceptable when applicants know that all borrowers must meet the same requirements.

Before supervised loans are made, County Supervisors will make every effort to see that the applicant understands and accepts the following: (1) That the loan for which he is being considered involves both the extension of credit and such supervision as may be deemed necessary to assure repayment of the loan. (2) That major changes to be made in the system and methods of farming, how and when certain goals will be reached, and other information pertinent to a successful plan of operation will need to be developed in detail with him and that it will be recorded on a Long-Time Farm and Home Plan for his guidance. (3) That an annual Farm and Home Plan will be developed for each crop year as an aid in accomplishing the long-time objectives. Also that such plans will be followed as closely as possible keeping operations and expenditures in reasonable conformance and that the County Supervisor must agree on any major deviations from the written plans. (4) That borrowers will be expected to keep inventories and current farm records which will assist them in conducting their farming operations on a business-like basis. (5) That borrower families will be expected to summarize their records at the end of each year and meet with the County Supervisor to review and analyze the year's operations and on the basis of the analysis, complete a Farm and Home Plan for the next crop year. (6) Farm visits will be made by supervisory personnel during the year to advise and assist borrower families in carrying out the improvements planned in their farm and home operations. At the time of these visits, the borrowdr and the County Supervisor will discuss the progress being made, and any problems and further actions involved in carrying out the planned operations.

Because of the fact that crop and chattel liens are taken to secure Operating loans and chattel liens may be taken to secure Soil and Water Conservation loans, and because of the problems that develop the serving of such security, it is necessary that County Supervisors have a thorough discussion with each applicant before such loans are closed with respect to the following: (1) What property will be covered by the mortgage and the more important covenants of the mortgage, such as those pertaining to livestock increase, after-acquired property, replacements, refinancing requirements, and default covenants. (2) When additional mortgages will be required. (3) The borrower's responsiblity for maintaining the security. (4) The borrower's responsibility for accounting for all disposition or mortgaged property and the necessity of keeping the County Supervisor currently informed of all security transactions.

Supplemental Material to be Provided by State Offices

In order to further assist County Supervisors in receiving and processing applications, the State Office will supplement this Instruction with materials and information adapted to state and local conditions. Examples of the type of information that can be used effectively for the guidance of the County Supervisor are: (1) Guides and suggestions for holding group meetings of applicants. (2) Illustrative material for use in explaining the FHA program to individuals and groups. (3) Suggested types of letters to be used in handling applications.

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CHAPTER VIII

LOAN PROCESSING* - (Insured and Direct Farm Ownership)

OPTIONING OF LAND

When land is to be purchased, the applicant will be responsible for selecting the land he intends to purchase and for obtaining an option on such land. Ordinarily, the County Committee should have viewed the applicant with favor before he obtains an option on the land to be purchased. The County Supervisor should, if possible, prior to the applicant's selection of the land to be purchased, advise him with respect to the approximate size and quality of farms which are generally considered as family-type farms in the particular county. Such advise, together with the consideration of the applicant's time in looking for farms and will reduce the number of options taken on farms which are obviously too small, too large, or too unproductive to qualify for the Farm Ownership program. "Option to Purchase Real Property" form will be given to the applicant with an explanation of the provisions of the Form and how it will be completed. Generally, the FHA option Form should be used; however, other option forms may be used if their provisions are acceptable.

The County Supervisor is responsible for examining each completed option to determine if it is acceptable. When the County Supervisor is doubtful as to whether the option is acceptable due to questions of a legal or administrative nature, such as (1) the effect of mineral or other reservations on the applicant's or Government's interest, or (2) unusual conditions or alterations of the FHA option form or other option form, if used, he will forward the option to the State Office with a memorandum indicating the extent to which the exceptions are or may be objectionable and request the advice of the State Director. The State Director will contact the Attorney in Charge when legal advice is needed.

When a tract of land is to be optioned and subdivided, the applicant, in whose name the option is to be taken must be advised by the Supervisor that he is not designated as an agent or trustee and will not receive any remuneration for assigning interest in the option to other applicants. The County Supervisor is responsible for explaining to the seller and the applicant, in whose name the option is taken the terms and conditions of the option including the provision that the seller will provide an accurate survey, if required by the Government.

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*Source: FHA Instructions 443.2

The County Supervisor will discuss any proposed subdivision with the County Committee and the Area Supervisor before any definite commitments are made to the prospective seller with respect to utilizing a tract for subdivision purposes. He will also obtain the assistance of the employee authorized to appraise farms in making a thorough study of the tract and in plotting the units to show proposed roads and other necessary facilities in order to determine whether it is practicable to subdivide the tract into adequate farms.

If the tract is determined to be suitable, an option will be taken on "Option for Purchase of Farm - Land to be Subdivided" Form. The tract will be subdivided into units, each unit will be surveyed and the applicant, in whose name the tract is optioned, with the guidance of the County Supervisor, will execute "Assignment of Interest in Option (land to Subdivided)" Form with each applicant who is to receive one of the units. If it becomes necessary for the State Director to designate an applicant an interest in the option, Designation of Assignee of Interest in Option (land to Subdivided) Form will be used.

SUITABILITY OF FARM FOR THE FARM OWNERSHIP PROGRAM

Responsibility for Determining Suitability of Farms

The County Supervisor is responsible for making a preliminary determination with respect to whether a loan can be made on the farm. This determination will be based on a personal inspection of the farm and the consideration of such factors as: Productivity of the land; condition and adequacy of buildings; approximate value of the farm; approximate amount of funds required for land purchase, refinancing or development; available title information; legal description and boundaries of the farm; roads, schools, markets, other community facilities; tax rates; and adequacy of the water supply.

Development of Loan Dockets and Plans

When the County Supervisor makes a preliminary determination that a loan can be made, he also will determine if it is a family-type or less than family-type farm and proceed to develop the loan docket. Farm and Home plans will be prepared in accordance with "Long-Time Farm and Home Planning and Annual Farm and Home Planning". When the Farm and Home Plan(s) and the tentative draft of the farm development plan have been completed, the County Supervisor will request the services of the appraiser. If it appears that a loan cannot be made, the County Supervisor will promptly notify the applicant of the specific reasons for the decision. In case the applicant is dissatisfied with the decision and requests further consideration, the County Supervisor may asks the County Committee to consider the farm and give an opinion regarding its suitability for a Farm Ownership loan.

COUNTY COMMITTEE CERTIFICATION

The County Supervisor will arrange for a meeting of the County Committee to inspect the farm, and to make the necessary determination with respect to the applicant and the farm. He will make available to the Committee completed Appraisal Report, Map of Farm, Farm Development Plan, Farm and Home Plan and Long-Time Farm and Home Plan. However, when a loan is being made to an active borrower for whom Farm and Home Plans have been developed in connection with other FHA loans existing Long-Time Farm and Home Plan and Farm and Home Plan will be revised to show a current financial statement and significant changes in the plan of operation.

Certification as to Applicant

The County Committee is responsible for certifying as to the eligibility of each applicant to receive the benefits of Title I of Bankhead-Jones Farm Tenant Act, as amended, and that, in the opinion of the Committee, the applicant by reason of his character, ability, industry, and experience honestly will endeavor to, and successfully will, carry out undertakings and obligations required of him under a Farm Ownership loan. The Committee also will determine that credit, sufficient in amount to finance the needs of the applicant, is not available to him at the rates (but not exceeding the rate of 5 percent per annum) and terms similar to those prevailing in the community in or near which the applicant resides for loans of similar size and character from commercial banks, cooperative lending agencies, or from any other responsible source.

Certification as to Farm

The County Committee is also responsible for certifying that the farm is of such character that there is a reasonable likelihood that the making of the loan will carry out the purposes of Title I. The County Committee also is responsible for certifying as the fair and reasonable value of the farm based upon its normal earning capacity for a family-type farm or normal market value for less than family-type farm. The County Committee's certification as to the fair and reasonable value of the farm should represent its determination with respect to the farm under consideration after personally inspecting the farm and reviewing the appraisal report. Usually, the inspection of the farm will be accomplished by the Committee as a group in order to obtain the benefit of group discussion.

Ordinarily, the fair and reasonable value established by the County Committee and value recommended by the appraiser should be approximately the same because they based their determinations on the same improvements and long-time prices and costs.

When the fair and reasonable value and the value recommended by the appraiser are significantly different, the State Director or a member of his Staff will determine whether the appropriate factors have been properly considered by the appraiser and the County Committee. The docket should not be considered for approval until the differences have been satisfactorily resolved.

DEFERRED PAYMENTS

For a direct Farm Ownership loan, the initial payment may be deferred until the end of the second full crop year from the date of the loan. Such payments may be deferred only when the Farm and Home Plan covering the first full crop year indicates that there will be insufficient income to meet a regular annual installment on the loan after farm operating, family living, and other essential expenses are paid during the first and second full crop years. Further, in the judgment of the loan approval official, there must be adequate evidence that income in subsequent years will be sufficient to meet the requirements of the loan. The initial payment must always be more than a nominal payment. Deferred payments should not be used to permit the accelerated repayment of other debts, to purchase an unusually large amount of capital goods, or to perform major items of land development. Deferment will be justified only when: (1) there is a substantial reorganization of the farming system, adequate returns from which will be delayed for one or two full crop years; or (2) there is being established a system of farming requiring substantial improvements in land clearing, draining, leveling, irrigating, basic fertilizing, and seeding, or other land development or soil improvement operations, adequate returns from which will be delayed for one or two full crop years.

For an insured loan, in addition to meeting the requirements for a direct Farm Ownership loan, the initial payment may be deferred only when the lender has agreed to such deferment and the deferment does not violate State or local laws or regulations to which the lender may be subject.

SECOND MORTGAGE LOAN

When the County Supervisor determines that it is necessary in protection of the Government's interest to obtain an agreement from a prior lienholder, "Agreement with Prior Lienholder," will be used in accordance with the provisions of FHA Instruction regarding same. The applicant will be required to furnish the County Supervisor, before the docket is assembled, a copy of any note and mortgage held by the prior lienholder so that a proper determination can be made as to whether it should be refinanced. In addition, the County Supervisor will be furnished a current statement from the mortgagee showing (1) the correct outstanding principal balance of the existing mortgage(s), (2) the amount of any accrued interest, (3) whether the account(s) is (are) current or delinquent, and (4) rate of interest, if not shown in the mortgage. This information will be included in the docket for the information of the loan approval official. Any cost incident to securing a copy of a mortgage or current statement will be paid by the applicant.

The County Supervisor will insert in the block "Certification, Comments, and Requirements of Approving Official" of "Record of Actions" the words "I recommend that this loan be secured by a second mortgage, subject to an outstanding first mortgage held by ____________________". The County Supervisor will initial this statement.

In states where a prior mortgage holder may foreclose his mortga and make a junior liens unenforceable without giving notice of foreclosure to the holder of the junior lien, a junior lien on the real estate will be taken as security for a loan only if the prior lienholder executes an agreement to give the Government actual advance notice of foreclosure or assignment of the mortgage. The State Director, with the advice of the Attorney in Charge, will prescribe an appropriate form of notice agreement and will issue a State Instruction regarding its use. The State Instruction will prescribe the minimum acceptable period of notice. If the State Instruction requires the notice agreement to be recorded, the cost of recording will be paid by the borrower.

PREPARATION AND DISTRIBUTION OF LOAN DOCKET

The County Supervisor will assemble the loan docket when the County Committee has signed "County Committee Certification (Farm Ownership Loans)".

The County Supervisor will determine whether or not refinancing is the primary purpose of the loan. This determination will be indicated on "Farm Ownership Fund Analysis" form. Loans primarily for refinancing will include (1) loans which are entirely for refinancing and fees, and (2) loans for refinancing which also include funds for land purchase or land or building development which will not significantly improve the farming operations or housing for the family. Loans primarily for the purposes other than refinancing or building development will significantly improve the farming operations or housing for the family. The loan docket will be checked thoroughly in the County Office by the Clerk and the County Supervisor to determine that: (1) The proposed loan conforms to the applicable loan limits in "Insured and Direct Farm Ownership Loan Policies and Authorities", (2) Each Form is prepared correctly in accordance with the "Forms Manual Insert", (3) Items such as names, addresses, and the amount of the loan are the same on all Forms in which such items appear.

Forms required in loan processing will be prepared and assembled in the County Office. The loan docket will be submitted to the State Office.

ACTION BY LOAN APPROVAL OFFICIAL - EXAMINATION OF LOAN

Before approving any loan, the loan approval official will make a comprehensive and objective study of the proposed loan, utilizing all available information regarding the family, the farm, and the plans of operation. This study is to determine the soundness of the loan and to see if the docket is correctly prepared. In the case of a loan where the property is subject to an existing mortgage, the loan approval official must determine whether the loan should be secured by a first or second mortgage. If the loan approval offical's findings do not concur with the County Supervisor's recommendation, the docket will be returned to the County Supervisor with his comments and suggestions for revision. The loan approval offical before approving the loan will determine that: (1) the applicant is eligible, (2) the loan is within the limitations prescribed "Insured and Direct Farm Ownership Loan Policies and Authorities", (3) the proper source of funds (insured or direct) is being used, (4) in the case of a full-time family-type operator, a sound system of farming has been planned and, in the case of the operator of less than a family-type farm, the income from the owned land together with income from other sources reasonably can be expected over the period of the loan, (5) the planned improvements are adequate for the planned operations and such improvements will put the farm in livable and operable condition at the outset. The amount of work to be done by the family in connection with the improvements must be within the capacity of the family, and will not seriously interfere with their farming operations, (6) The family's resources are such as reasonably to assure that the family can become successfully established on the farm. Careful consideration should be given to the amount of livestock and equipment owned, and cash available for operations, (7) The period of the loan is consistent with the debt-paying ability of the applicant, and the security interest of the Government and the amount of the loan is not in excess of the debt-paying ability of the applicant, (8) Any debts to be refinanced conforms with the applicable provisions of FHA Instructions, (9) For each loan to a veteran, the docket includes evidence of discharge or release. After the loan has been approved or disapproved, the evidence of discharge will be returned to the applicant.

Approval or Disapproval of a Loan

(1) If the loan is approved, the loan approval official will: (a) indicate approval of the loan on "Record of Actions" Form and sign the original and two copies of the Form, (b) Sign "Loan Authorization" Form for a direct loan or an insured loan when the United States as trustee for a State Rural Rehabilitation Corporation is the lender, and (2) If the loan is disapproved, the loan approval official will explain on "Record of Actions" Form the reasons therefore and initial and date the original. The County Supervisor will notify the applicant, giving the reasons for the disapproval of the loan.

Distribution of Docket Forms

The applicable docket forms will be distributed as outlined by the loan approval official after a loan is approved. (1) To the Finance Office - "Records of Action" Form (original, a signed copy, and an unsigned copy), "County Committee Certification" (original), "Loan Authorization" (original and copy when required) (2) To the National Office - One unsigned copy of "Records of Action" (for an unsured loan only, 1 unsigned copy). This copy will be sent to the National Office, Attention: Budget and Statistics Division, as soon as the name of the lender is definitely known and inserted on the Form or as soon as it is determined it will be necessary for the National Office to provide the name of the lender. (3) To the County Office - One unsigned copy of "Records of Action" or if the name of the lender was changed by the State Office, "Records of Action" will be corrected. (4) To the State Office - The State Office will retain one unsigned copy "Records of Action" and make appropriate entry on "Farm Ownership Memorandum Budget Record".

REQUESTING TITLE SERVICE AND ACCEPTING OPTION

When the County Supervisor receives "Records of Action" Form indicating approval of the loan, he will (1) see that title service is requested in accordance with FHA Instructions 427.1 and (2) where land is being acquired, also see that "Acceptance of Option" Form is completed, signed, and mailed to the seller; however, in connection with acceptance of option on a subdivision "Acceptance of Option by Assignee (Land to be Subdivided)" and "Acceptance of Option by Buyer (Land to be Subdivided)," will be used appropriately.

CANCELLATION OF LOAN

Loans may be cancelled before loan closing as follows: (1) The County Supervisor will prepare "Request for Cancellation of Loan," in an original and one copy for direct loans, and in an original and two copies for insured loans, and will forward all copies to the State Office. If the loan approval official agrees with the request for cancellation, he will sign Form and forward the original to the Finance Office, and make appropriate adjustments on "Farm Ownership Memorandum Budget Record". The State Office will return a copy to the County Office. (a) For a direct loan, if a check is received in the County Office, the County Supervisor will return it to the United States Treasury Regional Disbursing Office together with a copy of "Request Cancellation of Loan", and (b) For an insured loan, any checks advanced will be returned promptly to the lender with an explanatory letter, (2) Interested parties will be notified of the cancellation as provided in FHA Instruction 427.1 and (3) For insured loans, if "Records of Action" Form previously has been submitted to the National Office, the State Director will insert the name and address of the lender, if known on the other copy of "Request for Cancellation of Loan" and will forward it to the National Office, Attention: Budget and Statistics Division.

INCREASE OR DECREASE IN AMOUNT OF LOAN

If it becomes necessary that the amount of the loan be increased or decreased, the County Supervisor will request that all distributed docket forms be returned to the County Office. The loan docket will be revised accordingly and reprocessed.

OCCUPANCY OF FARMS BY BORROWERS ACQUIRING LAND

When the acceptance of option letter has been mailed to the seller, the borrower will arrange with the seller, in consulation with the Supervisor, to occupy and operate the farm as soon as practicable. Agreements will be in writing and cover such subjects as disposition of growing crops, rentals, payment of maintenance cost, and other pertinent points. The following Forms will be used for this purpose:

"Short-Term Lease of Optioned Land"
"Short-Term Lease (Between Purchaser and Seller)"
"Temporary Cropping License"
"Agreement (Between Seller, Purchaser, and Tenant)"

ACTION BY STATE OFFICE AFTER APPROVAL OF LOAN - INSURED LOAN

When "Request for Check" Form is received by the County Office, the State Office will: (1) When the name of the lender is known: (a) Check the name and address of the lender to see that these entries are correct, (b) Enter the loan on the records maintained in the State Office to control the allocation of loans among lenders, (c) Attest the signature of the County Supervisor on the original "Request for Check" Form, (d) Forward the original of "Request for Check" Form to the lender, and (e) Send a copy of "Request for Check Form to the National Office, Attention: Budget and Statistics Division. (2) When the National Office must provide the name of the lender, the State Director or other authorized State Official will: (a) Attest the signature of County Supervisor on the original "Request for Check" Form, (b) Submit the original (attested) and one copy of "Request for Check" Form, without the name of the lender, to the National Office, Attention: Budget and Statistics Division. The National Office will select a lender to make the loan, will forward the original of "Request for Check" Form to the lender selected, and will return the copy of "Request for Check" Form, showing the name and address of the lender, directly to the appropriate County Office. (3) The name and address of the lender will not be inserted on the note and mortgage until the check has been from the lender and the loan is ready for closing, in order that the County Supervisor may comply with any special instructions which may be received from the lender with respect to the name to be inserted on the note and mortgage.

DIRECT LOAN

The State Director is responsible for maintaining adequate control over obligation of all direct loan funds to assure that the funds approved for obligation do not exceed the funds available for obligation in a state during any fiscal year. Also, he is responsible for maintaining adequate controls to assure that no direct non-veteran loan (initial or subsequent) is approved after the total obligations during any fiscal year have reached the "legal ceiling" for the state.

ACTION BY THE FINANCE OFFICE:

When "Record of Actions" and "Farm Ownership Fund Analysis" Forms, and, when appropriate, "Loan Authorization" Form are received in the Finance Office, the following actions will be taken:

The Forms will be examined for compliance with the pertinent laws and regulations and routed for processing. The obligation will recorded and the appropriate block of "Record of Actions" Form will be checked. . If the Forms are in order, the appropriate block will be checked and statistical data will be recorded. If the Forms are not in order, the appropriate block will be checked and the Forms will be returned to the County Office for correction. If the legal ceiling has been reached or if loan funds are not available, the County Supervisor will be notified by appropriate entry under "Finance Office Comments," and the State Director also will be notified by memorandum. In all cases, the original of "Record of Actions" Form signed by an authorized official will be forwarded to the County Office. (1) Upon receipt of "Record of Actions" Form from the County Supervisor for a direct loan or an insured loan made by the United States as trustee for an SRRC indicating that the check is to be issued, "Loan Authorization" Form will be scheduled to the United States Treasury Regional Disbursing Officer in St. Louis, Missouri, for payment. (2) When the check is received in the Finance Office, it will be mailed to the appropriate County Office or County sub-Office together with the County Office copy of "Loan Authorization" Form. (3) The remaining forms will be retained in the Finance Office in suspense until the Promissory Note is received.

When "Promissory Note" Form or a copy of "Promissory Note (Insured Farm Ownership Loan) Form is received in the Finance Office, it will be examined in order to determine if it conforms with the suspense forms. If the note is prepared and executed correctly, the borrower's account will be established. If there are errors in the note, it will be returned to the County Office for correction. If any changes are required on the face of the note, the County Supervisor will obtain the advice of the designated attorney or the Attorney in Charge as appropriate.

ACTIONS SUBSEQUENT TO RECEIPT OF PRELIMINARY TITLE EVIDENCE AND PRIOR TO LOAN CLOSING:

County Supervisor - When the preliminary title evidence is received, it will be processed in accordance with FHA Instruction 427.1. When necessary curative actions have been taken to provide a satisfactory title and a date has been set for loan closing, the County Supervisor will order the loan check. (1) For a direct loan or an insured loan by the United States as trustee for an SRRC, the County Supervisor will check the block for issuance of the check on a copy of "Record of Actions" Form, date and sign the Form, and forward it to the Finance Office. (2) For an insured loan, the County Supervisor will request the check by preparing "Request for Check" Form in an original and two copies and submit the original and one copy to the State

Director. If the name of the lender is known, the County Supervisor will enter it on "Request of Actions" Form. In a case where the seller is to become the lender, the amount of the check requested will be only the amount of cash he will advance. Whenever the bank handling a supervised bank account will require the lender's personal check to clear before disbursing funds, the lender should be requested to furnish a certified or cashier's check. When suitable arrangements can be made with the lender, the bank draft method may be used to obtain insured loan funds. (a) When a lender issues a loan check payable jointly to the borrower(s) and the Farmers Home Administration as a precaution against loss of funds, the County Supervisor is authorized to endorse the check on behalf of the Farmers Home Administration at the time of loan closing as follows:

"Endorsed without recourse:
Farmers Home Administration
By______________________
Title ____________________"

The State Director also is authorized to endorse such a check in the same manner. Authority to endorse such checks in no way relates to or modifies the regulations contained in FHA Instruction 451.2 regarding collections items, or the endorsement of such items.

Designated Attorney

When the designated attorney receives the County Supervisor's comments on the preliminary title opinion and necessary waivers, he will determine if a satisfactory title can be obtained. When it is determined that a satisfactory title can be obtained, he will consult with the County Supervisor as to a suitable closing [illegible]. Closing documents will be prepared in accordance with FHA Instruction 427.1.

Attorney in Charge

When the Attorney in Charge receives the preliminary title evidence or binder and any other material required in FHA Instruction 427.1, and determines that title is satisfactory or that satisfactory title can be obtained, he will prepare the closing instructions. He also will forward to the County Supervisor: (1) The original and one copy of the closing instructions for the loan. (2) The original and one copy of the mortgage or instructions for its preparation. (3) Such additional copies of the mortgage as the Attorney in Charge determines are needed by the local representative furnishing title evidence and (4) Any other documents to be used in connection with loan closing.

Loan Closing Actions

When a loan closing date has been agreed upon, the County Supervisor will notify the borrower and seller, if any, of the loan closing date. The loan will be closed with the assistance of the designated attorney, or in accordance with the closing instructions of the Attorney in Charge, and the following appropriate actions will be taken prior to and after loan closing.

Insured Loan

When a loan check has been received and the loan cannot be closed on the date set for loan closing or within 21 days from the date of the check, it will be returned to the lender with a request for cancellation. When a loan check is lost or destroyed, the County Supervisor will immediately notify the lender and, if the borrower still desires to close the loan, the lender will be requested to issue a new check. When a check is returned and the loan will be closed at a subsequent date, another check will be requested in accordance with the provisions of Actions Subsequent to Receipt of Preliminary Title Evidence and Prior to Loan Closing.

Direct Loan

When a copy of "Loan Authorization" Forms is received in the County Office from the Finance Office, it will be placed in the borrower's County Office case folder. When a loan check has been issued and for any reason the loan cannot be closed within 21 days from the date of the check, or there is reasonable doubt as to whether the loan can be closed, the loan check will be returned to The United States Treasury Regional Disbursing Office, together with a letter explaining the reasons for non-delivery. If the loan check is to return to the County Office on a specified date, a request for its return will be included in the letter. The specified date on which it is to be returned cannot be more than 90 days from the date of the check. If it is desired that the check be returned at some indefinite future date, but not beyond 90 days from the date of the check, the letter will so state. In such case, the Finance Office must be notified of the desired disposition of the check not later than 75 days from the date of the check. A copy of each letter sent to the Regional Disbursing Office will be forwarded to the State Office.

Deposit of Check

The loan check will be deposited in a supervised bank account in accordance with FHA Instruction 402.1, on the date of loan closing after it has been determined that loan can be closed.

Assignment of Income from Property to be Mortgaged

Assignments will be taken when income is to be received by the borrower from royalties, leases, or other existing agreements under which the value of the security will be depreciated. Such assigned income will be applied as an extra payment on the loan. When the County Supervisor deems it advisable, assignments may also be taken for all or a portion of the income derived from non-depleting items such as bonus payments or annual delay rentals. Such assigned income will be applied as a regular payment. When a second mortgage loan is made, the written consent of the prior lienholder to be assigned will be obtained either by a letter or written approval by the lienholder on the assignment form. (1) In cases in which income is to be received by the borrower from a mineral lease or other existing agreement pertaining to the property at the time of purchase, "Assignment of Income from Real Estate Security" Form, will be prepared and executed by the borrower and his wife at the time of loan closing. The original and one copy will be forwarded to the lessee with the request that the original be signed and returned to the County Office. Upon receipt of the signed original, it will be filed in the borrower's case folder. (2) If he deems it advisable, the County Supervisor, upon advice of the designated attorney or Attorney in Charge, as appropriate, may require the acknowledgment and recordation of the assignment. Any cost incident thereto will be borne by the borrower. (3) At the time "Assignment of Income from Real Estate Security" Form is executed, appropriate notations will be made on "Area Guide Card" Form, to insure that the proceeds, or the specified portion of the proceeds, from the transactions are remitted at the proper time.

Collection of Appraisal Fee and Initial Loan Insurance Charge for Insured Loans

The County Supervisor will collect a $20 appraisal fee from each applicant at the time of loan closing. This fee may be included in the loan. "Receipt for Payment" Form will be prepared as usual, except that "Appraisal Fee Payment" will be written across the first four columns of line one in the application block of the receipt and the amount of the appraisal fee will be entered in the appropriate column. The initial loan insurance charge will be collected from an insured loan applicant at the time of loan closing. The amount of such charge will be computed at the rate of one percent of the principal amount of the loan for the period from the date of loan closing to the first January 1 thereafter. Such charge must be paid from the applicant's personal funds. The initial loan insurance charge is computed by multiplying the principal amount of the loan by the factor for the date on which the loan is closed. The amount of initial loan insurance charge will be included on the same "Receipt of Payment" Form prepared for the appraisal fee payment by entering immediately beneath the appraisal fee payment, "Insurance Payment." The amount will be entered in the appropriate column. If the first installment on the loan, or any portion thereof, is collected at the time of loan closing, it will be entered as a regular payment on the third line of "Receipt for Payment" Form.

Preparation of Note

The date of the note, "Bond" for direct loans or "Bond (Insured Farm Ownership)," for insured loans, will be the date of loan closing. Care will be taken to assure that the borrower's name, case number, address when living on the farm securing the loan, and all other entries are typed in correctly on the note. (1) When determining the amount of the first installment, the County Supervisor will consider the borrower's financial circumstances and the extent to which he will receive income from the farm during the calender year preceding the date of the first installment. The amount of the first installment may be less but not more than a regular annual installment. If the borrower will not receive income from the farm during the calendar year preceding the date of the first installment, a nominal first installment will be sufficient, unless the borrower desires to pay more. (2) The regular amortized installment will be determined in accordance with the Forms Manual Insert for the preparation of the note and the amortization rate. The amount of such installment will be the amount of the principal and interest which, if paid annually, will retire the full amount of the note plus interest within the amortization period of the loan. (3) When a loan is closed between December 1 and January 1, the first installment will be collected at the time of loan closing unless deferment is approved. (4) The promissory note will be signed by the borrower and his wife, if married, at the time of loan closing.

Applicant's Financial Condition

The County Supervisor will review with the applicant the financial statement which was prepared at the time the docket was developed. If there have been significant changes in his financial condition, the financial statement will be revised. When an applicant's financial condition has been changed to the extent that it appears that the loan would be unsound or improper, the County Supervisor will submit a revised loan docket to the loan approval official for reconsideration.

Change in Use of Funds Planned for Refinancing

(1) On cases where funds are included in the loan to refinance debts, the County Supervisor is authorized to transfer funds planned for refinancing between debts, provided all debts for which loan funds were planned are paid and the amount of loan funds to be used for refinancing does not exceed the amount planned for such purpose; except that the County Supervisor is authorized to use funds planned for other purposes to pay small deficiencies in estimates of the amount needed for refinancing, if he determines that sufficient funds will remain available to complete the planned farm development or land purchase.
(2) When the total amount of debts planned to be paid have been increased so that they cannot be met within the authorities above stated or that the applicant desires to transfer funds to pay debts for which loan funds were not planned, a revised loan docket will be submitted to the loan approval official for reconsideration. If "Farm Ownership Fund Analysis" Form has been revised and the loan is approved, the State Director will send a copy of the revised Form to the Finance Office. If the total amount of the loan will be increased, the docket will be processed in accordance with cancellation of a loan instructions.

Insurance Endorsement for Insured Loan

The County Supervisor is authorized to execute the insurance endorsement on the reverse side of "Bond" for direct loans or "Bond (Insured Farm Ownership Loan) Forms. The State Director also is authorized to sign the insurance endorsement. Execution of the insurance endorsement constitutes the Government's insurance of the loan. If for any reason, it is not possible for the same County Supervisor who signed "Request for Check" Form to sign the insurance endorsement on the promissory note, the original of the completed note will be sent to the State Office instead of directly to the lender. In such case, the State Director, or other authorized State Office official, will attest on the reverse of the note the signature of the different County Supervisor before sending the note to the lender. This will not be necessary when a local lender has no objection to a different signature on the insurance endorsement than that which appeared on "Request for Check" Form.

Obtaining Insurance

When there are insurable buildings on the farm, the County Supervisor will see that adequate insurance is provided, effective as of the time of loan closing.

Loan Closing

Loans will be closed in accordance with FHA Instructions. (1) Before closing the loan, the County Supervisor will determine that the corresponding entries on the note and mortgage are identical. (2) Immediately after loan closing, the original "Bonds" Form or a conformed copy of "Bonds" (Insured Farm Ownership)" Form will be sent to the Finance Office. (3) Immediately after loan closing, the original "Bonds (Insured Farm Ownership)" Form will be sent to the lender, except that when the United States as trustee for an SRRC is the lender it will be forwarded to the State Director for safekeeping. (4) When the mortgage is returned by the recording official, the County Supervisor will conform the copy with the original, including the recording data showing the date and place of recordation and the book and page number. (5) The original deed of conveyance, if any, and conformed copy of the mortgage will be delivered to the borrower. (6) If the borrower secures an owner's policy of title insurance, the County Supervisor will deliver it to the borrower as soon as it is received from the title insurance company.

Effective Time of Loan Closing

A Farm Ownership loan is considered closed when the mortgage is filed for record.

Water Stock Certificates

Water stock certificates will be sent to the State Office for safekeeping. A notation will be made on "Area Guide Card" Form showing that the stock certificates have been sent to the State Office.

Abstract of Title

Any abstract of title will be delivered to the borrower for safekeeping except when an abstract is secured from a third party with the understanding it will be returned, such abstrat will be sent directly to the third party. The County Supervisor will obtain a receipt from the borrower at the time the abstract is delivered to him. The receipt will be signed and dated by the borrower and the abstract will be identified in the receipt by showing the name of the abstractor who prepared the abstract, the number, if any, assigned by the abstractor, and the period covered by the abstract.

CHAPTER IX

APPRAISAL OF FARMS*

RAISALS REQUIRED

An appraisal report will be required in connection with each initial Farm Ownership and Farm Housing loan, and in connection with each Soil and Water Conservation loan in excess of $5,000 to be secured by a lien on the farm to be improved. An appraisal report also will be prepared when required by FHA Instructions or when requested by the County Committee, County Supervisor, or State Director in connection with making subsequent loans, initial Soil and Water Conservation loans not in excess of $5,000 and servicing loans where real estate is taken as security.

EMPLOYEES AUTHORIZED TO APPRAISE FARMS

An "appraiser" is an employee of the Farmers Home Administration whose duties, as specified in his job description, include responsibilities for the appraisal of farms and any other employee who has been designated in writing by the State Director to appraise farms.

The State Director is authorized to designate any other employee to appraise farms provided such employee recently has received appraisal training from other qualified employees and is thoroughly familiar with appraisal techniques, policies, and procedures. A copy of the designation of such an employee to perform appraisal duties will be sent to the National Office, Attention: Loan Division. This copy should give the date and extent of training, and the name and title of the employee by whom it was given.

APPRAISAL FORMS

"Appraisal Report" and "Map of Farm" Forms (Appendix "F") will be used in recording appraisals. The forms will be prepared in accordance with appraisal procedures and policies. In addition, when a farm under consideration is to be irrigated or is located in a drainage or levee district, or when minerals, timber, or other rights are leased, reserved, or exempted, "Supplemental Report (Irrigation, Drainage, Levee, and Minerals)" Form will be used to the extent applicable.

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*Source: FHA Instructions 422.1.

REAL ESTATE IMPROVEMENTS TO BE CONSIDERED

In making an appraisal, the appraiser will consider the real estate improvements already on the farm and those to be made by the applicant in connection with the loan, rather than those real estate improvements that a typical operator would have.

TYPICAL OWNER-OPERATOR

In appraising the farm, the appraiser will assume that the farm wil be operated by a typical owner-operator for the area in which the farm is located. Such operator will be representative of the farmers in the area who possess average skills and managerial ability for the area. For example, the appraiser will assume that the operator would be a typical dairyman if the farm being appraised is in an area where both dairy farming and corn-hog farming have proven successful and the farm has buildin and land resources, including improvements to be made in connection with the loan, which makes it more suitable for dairying.

NORMAL CAPACITY VALUE

This value is defined as the maximum amount that can be invested safely in a family-type farm consistent with the net income that the farm unit reasonably can be expected to produce, after any planned land and buildings improvements are completed. A distinction would be made between "normal earning capacity" and "normal earning capacity value". The term "normal earning capacity" means the long-time average annual production and income that reasonably can be expected from the farm. The term "normal earning capacity value" is an expression of the value of the farm based on its normal earning capacity. For a normal earning capacity appraisal, the appraiser will: (1) make the following assumptions: (a) The farm will be operated by a typical owner-operator for the area. (b) Cropping and livestock systems used are typical for the farm under consideration and will maintain the anticipated productivity. In determining the proper cropping system, the appraiser will take into account acreage allotments for the basic crops. (c) Average crop yields and livestock production estimates are used for the farm under consideration. (d) Approved commodity prices and farm operating costs are employed in estimating net income. (e) The farm will be improved as shown in the Farm Development Plan. (f) The normal farm operating and family living expenses, the cost of necessary farm and equipment repairs and replacements, and principal and interest payments will be met out of farm income. (g) Income credited to the farm will include only income from the sale of farm commodities. (2) Consider the amount that could be invested in the farm based upon capitalization of the net farm income available for payment on real estate loans. The minimum capitalization rate will be six percent. Farming systems which include major enterprises considered to be high-risk enterprises, or farms located in areas with unusual hazards such as droughts, hail, flood, and frosts which cause yields to fluctuate to the extent that net capitalized at rates higher than six per cent. (3) Determine the normal earning capacity value which should be consistent with and supported by the earning ability of the farm. Such value, however, is not merely a mathematical computation resulting from capitalization of the net farm income available for payment on the real estate loan(s). Some other factors that he must consider in determining normal earning capacity value are: (a) The desirability of the farm for a home. (b) The adaptability of the farm for alternative systems of farming. (c) Natural characteristics of the farm that would cause production to decline because of such factors as erosion or leaching.

NORMAL MARKET VALUE OF FARM AS IMPROVED

This value is defined as the amount a typical purchaser would, under normal conditions, be willing to pay and be justified in paying for the farm, as improved, for farming purposes and for any non-agricultural assets the farm may have. This value is reflected by prices at which comparable properties in the community have been sold for similar prices use over a period of years, assuming long-time prices and costs. This value assumes that the farm normally may be expected to sell for that amount with a reasonable amount of effort and that the purchaser is a willing but not anxious buyer and the seller is a willing but not forced seller. Some of the important factors that the appraiser must consider in determining the normal market value are: (1) Net farm earnings to the owner-operator and to the landlord based on long-time prices and costs. (2) Improvement shown on the Farm Development Plan. (3) Hazards of weather and high-risk enterprises. (4) Location of farm with respect to: (a) Off-farm employment opportunities and dependability of such employment. (b) Community services such as schools, churches, markets, trading centers, and roads. (5) Condition and suitability of buildings. (6) Condition and productivity of land. (7) Nonagricultural assets such as timber, gravel, stone, or proven minerals. (8) The price at which comparable properties in the area have been sold. These prices will be adjusted to normal market values. (9) Opinion of informed people who are familiar with real estate values in the area such as agricultural leaders, real estate brokers, and private and cooperative leaders.

NORMAL MARKET VALUE OF ACREAGE TO BE PURCHASED

This value will be determined as outlined above, except that planned improvements to be made by the applicant in connection with the loan will not be considered.

PRESENT MARKET VALUE OF FARM AS IMPROVED

This value is defined as the amount a typical purchaser would be willing to pay and be justified in paying for the farm, as improved, for farming purposes and for any nonagricultural assets the farm may have. This value assumes that on the current market the farm may be expected to sell for that amount with a reasonable amount of effort and that the purchaser is a willing but not anxious buyer and the seller is a willing but not forced seller. In determining present market value, the appraiser will consider the same factors as listed above as they apply to present conditions rather than normal conditions.

LONG-TIME COMMODITY PRICES, COSTS, AND OTHER BASIC APPRAISAL DATA

Long-time prices for farm commodities, long-time farm operating and family living costs, and other basic appraisal data will be used in the preparation of the appraisal report.

LONG-TIME COMMODITY PRICE SCHEDULES

A State schedule of long-time farm commodity prices (Appendix "K") will be prepared by the State Director. When significant price differences exist in marketing areas within a State, or if important grade or quality price differences exist, the State price schedule should reflect such differences. Each State schedule will be submitted to the National Office for approval before issuance. The approved schedule then will be issued as State Instruction. The State Director will review this State Instruction from time to time to make any revisions required by changing conditions. Any such revisions will be submitted to the National Office for approval before issuance.

Cost Schedules

A State schedule of cost items (Appendix "K") consistent with long-time commodity prices will be prepared by the State Director. The State Director will review this State Instruction from time to time to make any revisions required by changing conditions.

Other Basic Appraisal Data

The State Director will assemble other basic appraisal data for use of employees authorized to appraise farms as an aid to securing greater consistency in appraisals. All available materials, such as publications of Agricultural Experiment Stations, Agricultural Colleges, United States Department of Agriculture, and so forth, should be utilized in developing and assembling the data. Such data will be issued as a State Instruction.

It will include to the extent practicable: (1) A listing of recognized systems of farming, and the areas in the State where applicable. (2) Standard crop rotations for various soils, conditions, and enterprises. (3) Approved feed tables. (4) Hired labor cost figures. (5) Machinery requirements and depreciation rates. (6) Tractor expense data. (7) Values of buildings and depreciation rates. (8) Method of determining the cash expense for family living. (9) Capitalization rates. (10) Other items which will be helpful to appraisers.

ASSISTANCE BY COUNTY SUPERVISOR

The County Supervisor, when necessary, will assist the employee authorized to appraise farms in such matters as locating the boundaries of the farm, and will have assembled for his use other data that may be required by the State Office, such as: (1) An accurate copy of the legal description of the entire unit, or, of a part of a tract is to be appraised, the best description available. (2) Information regarding real estate taxes. (3) Agricultural Conservation Program information for the farm, including owner's aerial map, if available. (4) Crop Insurance Program information. (5) Soil Conservation Service Soil Surveys, Land Use Maps, and plans, if available. (6) Farm Development Plan, when applicable.

PART III - FARM CREDIT ADMINISTRATION

CHAPTER X

THE FEDERAL LAND BANK SYSTEM*

History and Organization

The Federal Loan Act of 1916 created the Federal land banks which now functions as a farmer's cooperative system to provide capital for agricultural development, to create standard forms of investments, to equalize rates of interest upon farm loans, to create Government depositories and financial agents for the U. S., and for other financial purposes. It provided for Government supervision through the Federal Farm Board, with the responsibility of organizing and supervising the 12 Federal land banks and its local national farm loan associations. The 12 Farm Credit Districts are evenly situated in the continents, each district comprising one or more estates according to the credit needs of the area. The Federal Farm Loan Board's functions were taken by tne newly created Farm Credit Administration in 1933 including the organizations it supervises.

"From 1933 to 1939, the Farm Credit Administration was an independent agency in the executive branch of the Federal Government, but from 1939 to 1953, it was a Bureau in the U. S. Department of Agriculture. In 1953, an act of congress restored it to its independent status and changed its organizational structures (Appendix "D"). The expense of operation of the Farm Credit Administration is borne entirely by assessments on the organizations it supervises. The land banks have no Federal funds invested in them, having retired the last such funds in 1947, but some of the other banks, corporations, and associations in the Farm Credit System have not as yet retired all Federal funds."

Capital Stock of the Federal Land Banks

The Government is authorized by the Farm Loan Act to provide a formula for retiring the investment of the Government by letting borrower-members to subscribe for the capital stock. A member-borrower before obtaining a loan is required to buy stock in his local national farm loan association an amount equal to 5 per cent of his approved loan. In return, the association buys the same amount of stock in the Federal land bank. The stock bought by the borrower-member is held by the bank and the association as an additional collateral security for repayment of the loan.

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*Circular No. 35, issued in 1951 by the Director of Information, Farm Credit Administration.

Supervision and Management

The Federal land banks and the local national farm loan associations are supervised by the Farm Credit Administration. The system functions under the direct supervisory authority of the Land Bank Commissioner who gets instructions from the Governor of the Farm Credit Administration. The congress of the U. S. conferred such supervisory responsibilities to the Farm Credit Administration to provide uniform policies throughout the system and to assure thà the main intentions of the Federal Loan Act are achieved and the operations serves public interests.

A board of directors, seven from the district Farm Credit Board, one chosen by the Governor of the Farm Credit Administration, one from nominations made by the associations, one member from the local farm loan associations, one member from the production credit associations and farmer cooperatives borrowing from the bank elect one member. The Governor appoints three other members to the Board.

The Federal land banks funds used for lending comes from the proceeds of the sales of consolidated Federal farm loan bonds. These bonds are the joint and several liabilities of the 12 Federal land banks whose collateral are the farm mortgages held by them. They are not guaranted by the Federal government. Purchasers of bonds consider it a prime investment in the money markets and buy them at a comparatively low rhes of interest. The national farm loan associations and the Federal land banks serves the gap between the farmers needing long-term credit and city investors. This source of available funds enables the system to give loans for a long period of years giving farm families time to repay.

National Farm Loan Associations

The national farm loan associations serves as the local cooperative units for the Federal land banks as required by the Federal Farm Loan Act. Farmers in any community within the credit district of the U. S. or its territories may group together, usually 10 or more, to form an association if they wish to receive benefits of the Federal Farm Loan Act. If the loan applied for is $20,000 or more, borrowers has to own and offer a satisfactory security for the bank loan. A charter could then be granted by the Farm Credit Administration to the association and the credit district it would operate. Five thousand associations were granted charters during the first 20 years of operation but reduced to 1,200 associations to avoid duplication of districts and/or territories served.

General Functions

All member-borrowers in an association is a separate charter organizations operating under its own promulgated by-laws. Each has its own officers elected from ad by the members. The board of directors screens and appoints employees responsible for the successful management and operations of the association.

The main object of the national farm loan associations is to provide farmers an opportunity to apply for loans in the Federal land banks. The association is responsible for the screening and recommending meritorious applications in order that all loans are safe, sound, and of service to the present and future borrowers. As provided in the Farm Loan Act, a farmer-borrower must qualify a security for his loan applied for. The associations also service the loans made through them.

Member-Ownership

As mentioned above, all members of the association are required to buy stock equal to 5 percent of the amount borrowed and in turn, the association purchase same amount in the Federal land banks. This stock subscriptions to their associations enabled farmers-members own the Federal land bank in each Farm Credit district.

The stock owned by members in the association are their personal property but is pledged to the association as an additional collateral for their loan made. Ordinarily, if the farmer sells his farm, his stock should go with it but the transfer of the stock ownership cannot be on record to the association books unless the new owner has signified his intention of assuming the mortgage and is qualified and elected to membership in the association. Once the purchaser is accepted to membership, he becomes the stockholder with the same rights and privileges as the former owner.

Stock Liability

Losses of the association is shouldered by every member. "If the loss results from a loan granted after June 16, 1933, his maximum liability is the face value of his stock. Most associations now have considerable amounts in accumulated reserves and surplus funds which protects the members' investment. These funds and sound methods of operation make the possibility of any impairment of the members' investment in the stock of his association a remote contingency."

Redeeming Stock

Once a loan from a Federal land banks is fully paid, the stock in the bank is retired in cash at par - $5 per share. The borrowers' membership to the association is also terminated in the same manner. By following this procedure, ownership of the system is confined to the member-borrowers.

The stock may not be redeemed if the national farmloan associations that endorsed it is still indebted to the bank beyond its capacity to redeem such loan. However, all the members of the national farm loan associations visited had realized that their investments in their respective associations stock which they have held at the time of redemption.

Dividends

Savings are distributed to borrowers by the national farm loan associations and the Federal land banks to the local farm loan associations. This distributed dividends comes from stocks owned by the associations and borrower-members which are solely patronage refunds.

The law states that "after providing for legal reserve, a Federal land bank may declare dividends to stockholders of the whole or any part of its net earnings with the approval of the Farm Credit Administration." The Bank Commissioner on behalf of the Farm Credit Administration requires that a bank must be able to maintain a satisfactory earning position, including adequate provision for losses, and be able to satisfy all of its financial requirements with respect to dividends by the associations, which also require the approval of the Land Bank Commissioner.

"During the early years of the system, dividends were paid by the Federal land banks when they were discontinued from 1931 to until the end of 1943. With the improved economic conditions resulting in greater earnings, the payment of dividends has been resumed. The associations in turn have passed on to their members a substantial percentage of the dividends of the cost of money loaned to members. The remainder of the dividends received from the banks by the associations and not used for necessary expenses has been retained to establish appropriate reserves and maintain a satisfactory net worth position."

By-Laws

Associations adopts their own by-laws for their successful and normal functioning. Their by-laws provides how officers are elected and other provisions for a successful relations with the mother banks.

Board of Directors

The directors of a local national farm loan association are elected from the members themselves through democratic principle of one-man one-vote. Board members usually should number less than 5 nor more than 7 to serve a definite term of 3 years. Board members should be bona fide residents of the area the association operates and stockholders of the same. The board has supervision and direct control over the associations' affairs with the guidance of the Farm Credit Administration.

The major functions of the board of directors are (1) "To determine and establish policies of the association (2) "To elect officers and authorized the employment of qualified personnel to carry on the business of the association (3) "To determine that the operations are carried on in an efficient manner and in accordance with the board's policies and laws under which the associations operates.

Secretary-Treasurer

The secretary-treasurer conducts the work of the association under the general direction of the board. He is familiar with conditions of and the credit needs of farmers in his area. In short, the secretary-treasurer does the functions of an executive officer which covers almost all activities of the association.

Loan Committee

All national farm loan associations are served by a loan committee with three or more members designated by the board members. The loan committee after receiving a request for a mortgage loan, are required to inspect the property and interview the applicant. A report of this committee to the association guides all concerned. If the loan is approved, the security offered is appraised by an appraiser designated by the Farm Credit Administration.

The loan committee may be mpowered by the Board of Directors to select applicants to membership and act as the loan committee in approving loans in behalf of the association. The committee also decides upon the amount and terms of the loan if approved based on values recommended by the appraiser. After this processes, the secretary-treasurer may give the applicant a commitment subject to the existing regulations and policies of the lending bank.

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The directors of a local national farm loan association are elected from the members themselves through democratic principle of one-man one-vote. Board members usually should number less than 5 nor more than 7 to serve a definite term of 3 years. Board members should be bona fide residents of the area the association operates and stockholders of the same. The board has supervision and direct control over the associations' affairs with the guidance of the Farm Credit Administration.

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Responsibilities of Members

Members-patrons has the control over the cooperatives activities even in the election of its officers. Each of the national farm loan associations are under obligation to hold an annual meeting to finalize decisions and elect the officers for the following year. At this meeting, the members are informed about their organization and exchange ideas for the good of the association.

Since the success of a cooperative work depends upon the support of its members, applicants going to the national farm loan associations for credit are told about its services from satisfied borrowers. Members also encourage farmers in their respective communities about the services rendered by their association. The most important responsibility of a cooperative member is to meet his obligations on his loan and to maintain his security for the loan to improve the condition of his farm and home.

Association Finances

The dividends for payment of servicing loans and interests on investments by the Federal land banks are the sources of the associations salaries for employees, rent, travel, and all other items necessary for efficient credit service to members. However, each bank varies in the plans and its mode of compensations. Whenever, losses occur, the associations should make good of their written obligation to the Federal Land banks. The associations concerned may use its reserves for payment and if insufficient, a liability remains against the association.

FEDERAL LAND BANK LOANS

Farmers, who qualify and whose security meets the requirements for a loan, can apply for a loan range from $100 to $100,000. A land bank loan can also be made on the security of a previous mortgage to any farmer or rancher soon to start operations or any person whose principal source of income comes from the production of livestock and crops.

Purposes

Land bank loans may be made on the following: (1) "To provide for the purchase of land for agricultural purposes; (2) "To provide for the purchase of equipment, fertilizers, and livestock necessary for the proper operation of the farm or other farm land owned by the applicant; (3) "To provide buildings and for the improvement of farm land; (4) "To pay any indebtedness secured by a mortgage on a farm or any indebtedness of the applicant incurred for agricultural purposes or other debts incurred at least 2 years prior to the date of application; (5) "To provide the owner of the land with funds for general agricultural uses which include living expenses of the applicant while engaged in farming; medical and funeral expenses; education of the applicant's children; fire and tornado insurance premium; payment of farm property taxes and Federal income taxes; assistance to parents; spouse or children in farming; discharging secondary liability as endorser for debts incurred at least 2 years prior to the date of application, or for agricultural purposes on any date, and replacing temporarily advanced personal funds used in farming enterprises."

Security

Loans made by Federal land banks on first mortgages of farm lands are duly recorded. Loans made are based on normal values determined by an appraiser. Basis of appraisal is the value of the farm for agricultural purposes and the earning power of the farm.

Appraisal Policies

All securities of an applicant is appraised by an appraiser of the Federal land banks and no loans are made if the appraiser's report is unfavorable. The Federal Loan Act, as amended, requires that all land bank loans be based upon the normal value of the farm offered as security and that a loan may not exceed 65 per cent of such value. Normal value is defined as "the amount a typical purchaser would, under usual conditions, be willing to pay and be justified in paying for the property for customary agricultural uses, including home advantages, with the expectation of receiving net earnings from the farm. Generally speaking, normal values are long term values established for the purpose of making long term loans on a basis that will avoid overlending in peak periods and underlending in depression periods."

The Farm Credit Administration sets the long-term farm products prices and farm operating costs in arriving at net earnings. The long-term prices and costs of farming and farm products are based on historical data and a careful analysis of present situations, farm outlooks and trends.

Soundness of the Loan

The sale of bonds by the Federal land banks are the sources funds for loans available to member-borrowers. Because loans are made for long periods, ranging from 20 to 40 years, credit factors should be carefully considered to assure repayment of all loans. Both the farmer-applicant and the property offered as security are factors of importace in the transaction. Loans are made only to render a helpful financial service to worthy applicants. A sound loan must be sound from the standpoint of the borrower as well as the lender. The aim of the Federal land banks is to develop loan policies that will serve constructive credit needs of farmers, assure a dependable supply of low-cost loan funds and maintain a permanent efficient and well-organized associations for making the loans. The System has developed and adopted the following definitions as follows: A Federal land bank loan is sound if (1) "It serves a useful purpose; (2) "The amount and terms of repayment are within the debt retirement capacity of the farm and the borrower; (3) "The borrower is an acceptable risk and his equity in the normal value of the farm and his equity in his other assets are such that he will be encouraged to protect his investment at all times; and (4) "The quality of the farm is such that the bank and association will be afforded reasonable protection against loss should acquisition of the security becomes necessary."

Processing a Loan

There are seven basic steps involved in making a loan: (1) "The applicant applies for a loan through his local national farm loan association, giving the location of his farm, his financial statement, and certain other information including the purposes for which the proceeds will be used; (2) "The association investigator, usually the secretary-treasurer or his assistant investigates the applicants standing in the community and his managerial ability. This investigation ordinarily includes a visit to the farm so the investigator can make an accurate analysis of the entire situation. He reports on his findings and makes his recommendation concerning to the association loan committee. (3) "The farm is appraised by a land bank appraiser who submits his report to the association. (4) "The association loan committee considers the reports and either approves or rejects the loan. The loan must be approved by all members of the committee, not less than three, to whom the application is presented for consideration. Approval of a loan includes election of the applicant to membership. (5) "The bank loan committee considers the reports and either approves or rejects a loan. It cannot approve a loan for more than the amount recommended by the amount approved by the association loan committee. (6) "If a loan is approved by both of the loan committees, it is offered to the applicant for his acceptance. (7) "If the loan is accepted, the title to the farm is examined and, if it is found acceptable, the loan is closed.

The manner in which these steps are performed varies to some extent among land bank districts and associations within a district.

Term of Loan

The shortest term that a Federal land bank loan can be repaid is five years and the longest possible repayment period is 40 years. However, borrowers can pay their loans in less than 40 years if they wish to. The object is to fix the term of the loan according to the needs of the borrower, his capacity to pay and the productivity of his farm and the durability of the security offered for the loan.

Repayment Provisions

Loans made by the Federal land banks are payable on a plan of semi-annual or annual amortizations. The unpaid balance incurrs an interest and such amount will be applied on the principal. Repayment plans used are the standard or equal payment plan and the other, the decreasing payment plan. A borrower under the standard payment plan, makes a fixed, equal payment semi-annually or annually wherein a part of the amount paid is applied to interest and the balance to principal, gradually reducing the debt. In every payment, the interest becomes less and the amount paid for the principal becomes greater. In the decreasing payment plan, a fixed semi-annual or annual payment is made.

Repayment Privileges

A borrower, if he wishes to and capable, may pay his loan ahead of time. This is true cnly if the income is high, Upon instruction of the borrower, advance payments to future instalments are accepted by the land banks and an interest equal to the rate charged on his loan will be earned by such advance payments.

Interest Rates

The ordinary charges for loans of the Farm Credit Administration is 4 per centum per annum, however, some credit districts has higher rates to cover increased costs in making and servicing loans. Savings from increased rates of interest are returned to member-borrowers as dividends.

Fees and Charges

Each applicant is required to furnish satisfactory evidence of title and shall pay corresponding recording chages. The charge for the making of the certificate of title is between the applicant and abstractor; the applicant can find out the cost before requesting for the work done.

Loan Servicing

The Federal land banks has a consistent policy and systematic procedures in servicing their loans and the national farm loan associations have been empowered to perform the work with absolute fairness to the borrower-members. The Board of Directors is empowered as the liaison to see that all loans are in conformity with the standing general policies of the land bank to both the borrower and the lending association. The associations are liberal in their collections; able borrowers may pay on time, however, some borrowers may be delinquent due to circumstances beyond their control, payments are not generally required when it impairs his ability to earn and meet future payments.

A borrower is considered worthy and his loan is not foreclosed if (1) "Is doing his best (exerts every reasonable effort toward proper management and operation of the farm; uses outside income or reserves, if available, to help carry farm indebtedness and to operate the farm; willing to meet material requirements which the bank is justified in making); (2) "Is applying the proceeds of production over the above necessary living and operating expenses, to the payment of primary obligations (confines living expenses to the standard of other farmers comparably situated in the community); (3) "Is taking proper care of the property (maintain necessary buildings and other physical assets in reasonable state of repair preserves the fertility of the soil; and in general maintains or improves the earning capacity of the property, and (4) "Has the capacity to work his way out of a reasonable burden under normal conditions (has the ability, managerial or otherwise, to operate property with reasonable efficiency).

Delinquent Loan Treatments

The different associations have developed a systematic loan servicing treatments to meet specific problems of borrowers on an individual basis in order to prevent foreclosures and assist deserving borrowers in retaining their farm and homes. The association may permit to prolong the time for the borrower to pay delinquent installments, it may defer any payment on principal of borrowed loans for a specified time, it may advance the payment of unpaid taxes, or it may lengthen the period from which to pay the loan. All angles of the situation is considered carefully to determine the causes for default and the most practicable methods by which the barriers may be overcomed through the use of loan treatments or improved management and farming methods.

Loans that Fail

Some loans will fail despite the help and assistance of the lending associations and the banks, and the good intentions of the borrowers.

Mortgage loan foreclosure is a serious step and taken only as the last resort. It is recommended after all the facts in the case are thoroughly considered and all other solutions including the sale of the farm to give a chance for the borrower to salvage any equity he may have remaining on the property. The bank has the full authority to foreclose a loan but the endorsing associations' recommendation is required.

Taxes and Insurance

Borrowers must agree to pay when due all taxes assessed on his property in accordance with the terms ar conditions of his mortgage. Real estate tax is a fixed annual charge and constitutes a lien ahead of the banks mortgage. Borrowers are encourage to pay taxes promptly by the associations. Buildings must be kept adequately insured for the protection of all parties concerned as it is one factor in determining the amount of the loan. Insurance is payable to the bank as its interest may appear at the time of loss. Amounts received may be used to pay for the reconstruction of the buildings destroyed at the option of the borrower and subject to applicable regulations of the agency. The associations are responsible to the banks to see to it that all buildings used as collateral by borrowers must be insured.

Partial Releases

A partial release is granted, if the borrower desiring to sell part of the mortgged property - lnd, buildings, timber, sand, gravel, etc. provided the terms and conditions set for the loan is maintained or improved. Ordinarily, funds received from such sale should be applied to the principal of the loan, but where the interest of the three parties, the bank would be better served, the fund may be used for other purposes, such as paying delinquent taxes, interest, insurance premiums, repairing or construction of buildings on the mortgaged farm, improving the soil or for personal needs of the borrower.

Release of Personal Liability

By selling his mortgged farm, a member of a national farm loan association is not free of his personal liability to pay his loan. He is liable until he has fully paid his accounts or until he is given release by the bank. The borrower must make a written application and the purchaser must assume the liability before the bank grants the borrower of his liability. Also, there must be assurances that the purchaser is in a paying capacity to meet the terms and conditions of the loan. All interests of the applicant must be transferred to the purchaser for the release of the stock issued in connection with the loan.

CHAPTER XI

MAKING AN APPRAISAL*

PROCEDURE

It is recognized that different appraisers will not follow the same order of procedure in making an appraisal, nor it is likely that an individual appraiser will follow a fixed order of procedure in all cases. Different types of farms and varying circumstances require variations in appraisal procedure. It is believed, however, that in general a typical appraisal will include the steps discussed in the succeeding sections, even though they will not always be undertaken in the sequence in which they are listed here.

STUDYING THE APPLICATION AND PLANNING THE WORK

An application is required when an appraisal is made for loan purposes. The appraiser should never make any change or alteration in the application. Appraisals should not be made of any lands in connection with applications for loans when conditions, because of bad weather, field conditions, or otherwise, do not permit an adequate and thorough inspection. Appraisals cannot always be made under ideal conditions, and it is expected that appraisers will use good judgment in individual cases in determining conditions thà are satisfactory for proper appraisal.

It is important that the appraiser carefully read the application prior to beginning his appraisal. It is an observation of many experienced appraisers that a careful review of the applications to be covered in a trip will enable an appraiser to plan his work to much better advantage.

DEVELOPING GENERAL INFORMATION

The appraiser ordinarily will be familiar with the local area with respect to types of farming, yields of crops, carrying capacity of pastures, markets, population, standards of living, sale prices of farms, trends, community advantages, detriments and hazards, and other factors which affect values. There are a number of sources, in addition to personal observation, from which information of this type may be obtained. A good working relationship with local farmers, businessmen, and others familiar with the agriculture of the area provides a continuing source of helpful information.

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*Source: Chapter V - Manual for Land Bank Appraisers - Farm Credit Administration.

The appraiser should have a general idea of the soils in any area which he is called upon to make an appraisal. If he is familiar with the area, he will have become fully informed relative to the series, types, and phases of the soils, as well as their characteristics and productive capacity and their adaptability to the type of farming which is practiced.

Dependable information is necessary regarding the climatic history and characteristics of an area, as well as their effect upon the adaptability of crops that are customarily grown. The effect of climatic conditions upon the durability of land under the use to which it is commonly put must also be considered. Information relative to the climatic fluctuations of an area over a period of years and the effect upon the agriculture may be obtained by contact with well-informed local people and by consulting records of the United States Weather Bureau.

Information regarding tax levels and their effect upon values is essential in making appraisals. Sufficient inquiry should be made to determine whether the tax being levied on a particular property at the time of appraisal is representative of the charge that it will have to bear in the future. Records of taxes levied for several years past usually provide a guide to future requirements if taxes for the current year appear to be abnormal.

STUDYING THE COMMUNITY

Ordinarily the appraiser should drive to a farm by a route that will enable him to obtain a good idea of the favorable and unfavorable features of the neighborhood. This will include the type of farming practiced, the community development, and the care commonly given to buildings and land. Also, observations will be made regarding the conditions of roads, the community services available, and undesirable features such as noxious weeds and erosion and other related community conditions. From observations, his general knowledge and experience as an appraiser, and general information obtained from well-informed and reliable local sources, as well as other data available to him, the appraiser should be in a position to classify the area in which the farm is located.

INSPECTING THE FARM PROPERTY

One of the first steps in making an appraisal is to identify the property, check its boundaries, and make sure that the lines are in accordance with the description in the application. If there are discrepancies, the correct description should be determined and proper consideration given to it in the appraisal. If there is a material question as to the description of the property so that the appraiser is unable to determine the boundaries with assurance of correctness, he may require that a survey be furnished. Ordinarily such a requirement should not be made if only a relatively minor portion of the security is involved, unless there is a question as to the location of the improvements with respect to boundaries, the source of water supply for the property, or ingress and egress from a public road.

Accompanied by the applicant, if possible, the appraiser should make a thorough inspection of the farm property. During the inspection the appraiser should make a standard plat of the farm showing the fields in their approximate location, indicating farm showing the fields in their approximate acreage in cultivation, idle, pasture, timber, and waste land. He should locate the buildings on the plant and number them for future identifications. Springs, wells, streams, and special features such as dams, gravel pits, and underpasses should be shown and identified in their proper location on the farm. Careful notation should be made as to the topography, so that by means of correct symbols it can be shown on the plat. The use of an aerial photo, when available, assists materially in making a good plat.

During the inspection the appraiser should note the crop program and the fertilizing practices being followed, the average yields being obtained, and the probable future plan of operation.

ESTIMATING NORMAL EARNING POWER OF FARM

Typical Operation

The estimate of the normal earning power of the farm should be on the basis of typical operation. From his observations while on the farm, his knowledge of the community, and general information that he has gathered, the appraiser should be able to set up a crop schedule that a typical farmer who would be likely to own the farm would follow. In developing such a schedule the appraiser will consider all the factors influencing a farmer in the selection of the crops to be grown, including consideration to cropping programs and acreage allotments. Policies with respect to such programs and allotments must remain flexible, and information on the handling of individual crops included in such programs will be furnished the appraiser by the office of the chief reviewing appraiser. He should carefully estimate the average expected production under usual conditions and, using normal prices, calculate the gross value of the products usually produced.

A common error is that of overestimating or underestimating the yields of crops. This is particularly evident during or after a good or poor season or cycle of seasons. The acre yields of crops should be estimated average yields over a long period, assuming that the farm is operated by a typical farmer, not necessarily the present farmer, and should reflect the present condition of the farm and varying seasonal conditions and hazards.

The term "typical operator" should not lead the appraiser to set up an estimate of the earning power of the farm as operated by a hypothetical farmer who is presumably average in all respects. The term is used in appraisal reports and in appraisal discussions to avoid the error or attributing value to a farm because of unusual farm practices employed by the present owner. If the farmer on the property being appraised is farming in a reasonably customary manner for the type and quality of the farm, the appraiser can safely follow his operations. If, however, the farmer differs materially in any important respect from a typical operator of the particular property, proper allowance should be made for such difference.

Gross Income

The estimate of gross income should include the average normal cash sales of (1) crops included in the crop schedule being sure to exclude crops fed on the farm; (2) livestock based on the numbers sold on the property; (3) livestock products sold from the property; and (4) miscellaneous agricultural income including items not listed above, such as woodland products, straw, manure, etc.

Expenses

Farm expenses should include the usual production costs, as well as insurance, taxes, and annual upkeep costs but not interest on investment or costs of living. The following are examples of costs items to be included in farm expenses: (1) Hired labor, including labor performed by adult members of the family other than the operator. (2) Feed and seed normally purchased. (3) Commercial fertilizer and lime purchased. (4) Gasoline, oil, and electricity. (5) Repair and replacement of machinery and equipment. (6) Replacement of work and breeding stock normally purchased. (7) Other operating expenses such as custom work hired, feeder stock purchased and veterinary costs. (8) Interest on short-term credit. (9) Personal property taxes. (10) Real estate taxes. (11) Irrigation and drainage charges. (12) Upkeep of buildings. (13) Maintenance of fences, terraces, ditches, etc. (14) Farm insurance, including buildings, crops, liability, etc.

The estimate of the expenses on a rental basis should, of course, include only that part of the above expenses customarily paid by the landlord.

Net Income

Crops acreages, yields, prices, and production costs all effect the normal net income. Proper consideration of all these factors is necessary in order to make a dependable estimate of the normal net income. It should be kept in mind, also, that factors other than net farm income influence farm value and that two farms with the same net income may, because of location, community advantages, etc. have different values.

ESTIMATING OUTSIDE INCOME

In an area where outside income normally is available to the typical operator to supplement the net farm income, and where the typical operator for the type and size farm being appraised normally would obtain such income, an estimate of the net amount on a normal basis should be made. The important factors of location and home desirability require particular attention when making the estimate of normal net outside income. A well-located farm having a desirable farm home usually will attract the type of operator who will obtain full measure of the outside income opportunities afforded in the community. The time factor also must be considered as a typical operator cannot give full time to the farm and also be credited with income from a full-time job. As a practical matter, the size of the farm and the amount of time required by the typical operator to operate the farm usually will govern the amount of time available for other work.

The estimate of outside income should be on a normal basis. This should allow for a level of employment and wage rates likely to prevail over a period of years in the future under the economic circumstances assumed for the adopted policy regarding normal farm commodity prices and costs. Also, allowance should be made for the expenses of obtaining the outside income, such as transportation and other miscellaneous costs, in order to arrive at the normal net outside income.

SALE PRICE OF FARMS

That part of the definition of normal agricultural value referring to the amount a typical purchaser is "willing to pay" for a farm gives recognition to sales price as a factor in value. The price paid by the owner of the farm being appraised, however, may or may not be representative of the market level at the time of purchase. In stable well-established agricultural areas, the general level of prices paid for farms by informed purchasers does provide a measure of normal value during a period regarded as reflecting normal agricultural conditions. As in the case of normal commodity prices and normal operating costs, the Farm Credit Administration has prescribed the normal level of farm sale prices on a national basis for use in appraisals. This level is early 1946, which is considered to be consistent with the adopted levels for normal prices and costs on a national basis. This period for the national average of sale prices is not a normal one for all individual areas in the country, however, due to differences in trends.

As a result of appraisal standards studies, bench marks of value are established that reflect not only the sales in the normal period for the area but also the normal earnings and other known value factors that reflect the "justified" portion of the definition of normal agricultural value. Comparison of the farm being appraised with established benchmarks of value provides dependable information for use in arriving at the normal agricultural value.

Care should be exercised in the use of sale prices in making appraisals. Too few sales may be entirely misleading and there is the danger of placing too much reliance on a particular sale. Several bona fide sales of similar type farms to informed purchasers are needed in order to determine the level of sale prices. Sale prices also should be considered from the viewpoint of the level of farm commodity prices received and the farm operating costs paid during the same general period, as well as any other factors affecting the strength or weakness in the demand for farms.

DESCRIPTION AND VALUATION OF LAND

In going over the farm the land should be graded according to quality and general use with the approximate acreage in each class. The grading should be practical, the classes of land being reasonably broad but not too general, and sufficient in number to reflect real differences in utilization, adaptation, quality, topography, and durability. A difference in soil types will be a determining factor in grading land in the appraisal of some properties, but usually the land should be classified from the standpoint of adaptation and productivity rather than entirely by soil types.

The soil should be examined with adequate attention to quality, productivity,state of cultivation, adaptability, erosion control practices being followed; the drainage condition and need for additional drainage, and any flood hazard. The presence of any noxious weeds, the extent of the infestation, the control measures being practiced, and the effect on cost of operation and production should be ascertained; and the effect on land values, desirability, and salability of the farm should be carefully considered.

The use of the soil auger will, in many instances, be necessary in order to make a satisfactory examination of the soils. Frequency of borings will depend largely upon the type of property and uniformity of the land. In general farming areas, and particularly where the soils lack uniformity, several borings on an individual property may be necessary to determine the quality of the soils or to judge the drainage, but in the appraisal of grazing lands in some ranching areas there is little object in making numerous soil borings.

When separate values are desired on land buildings, tentative values should be placed on the various grades of land, bearing in mind the relation of each grde to the farm unit as a whole. In doing this, the appraiser should be guided by his judgment of the value of such land put to the uses and producing the yields that would be expected of a typical operator, which consideration being given to the community influence and the level of values recognized for similar grades of land on other comparable properties. Land used for highway purposes should be set up as having no agricultural value, and any value added to the farm by reason of its locaion on a highway should be reflected in the value of the productive land.

DESCRIPTION AND VALUATION OF BUILDINGS

The value of farm buildings is determined by a careful examination of each building with appropriate consideration to (1) the replacement cost (new) on the basis of the adopted level for building costs, and (2) the amount the building has depreciated in value. Two cost levels are permitted to be used in arriving at the replacement cost. One is the normal level of building costs tha prevailed during the 1948-1950 period is the level that is used for all normal farm operating costs. The other level represents current costs. Instructions issued by the chief reviewing appraiser specify the level for use within a farm credit district. Obviously, the 1948-50 cost level or the current cost level for building values is not in harmony with the adopted level for normal agricultural value and such building values primarily are for the purpose of establishing insurance. A complete description of each building is necessary part of the complete description of the farm.

The replacement cost is the amount required to replae the existing building with an appropriate new one of the same general use for the level of building costs specified. Depreciation includes any loss in value of the building when compared with the replacement cost.

This loss in value may result from the physical deterioration of the building or obsolescence or both. Loss in value due to obsolescence is found in buildings of this type are dairy barns lacking in sanitation requirements, buildings no longer required due to change in type of farming and mechanization, and farm dwellings that are undesirable in size or design.

As a guide in the valuation of farm buildings, value standards for those constructed during the prescribed cost period for buildings form the starting point. Depreciation varies widely due to type of construction, degree of maintenance, climatic conditions, and obsolescence. Because of the wide differences that exist andthe many factors involved in the valuation of older type buildings, a comparison of them with value standards for new type buildings, forms the most dependable approach to their value.

Use of the comparison method necessitates having proper benchmarks of building values for the usual type farm buildings found in an area or region. The appraisers' handbook should contain an adequate number of these benchmarks in order to assure that consistent values are assigned to farm buildings. These benchmarks should be based on the level of building costs specified for use by the chief reviewing appraisers' office. Information regarding each building used as a benchmark should include a picture, the year constructed, the cost, the value, and a brief description of the size, material, foundation, roof, finish, floors, fixtures, and any other features. Examples of some older type buildings also should be included in the handbook as benchmarks, even though details of the costs are not available, but where value standards have been arrived at by making appropriate comparisons ad adjustments with newer type buildings.

An inspection of each building is necessary part of the valuation process and usually involves one or more of the following methods of approach: (1) The square foot method. This method is used extensively in the valuation of general farm buildings. Adjustments need to be made for height, total area involved, type of construction, and any special features. (2) The linear foot method. This is an adaptation of the square foot method and is used in valuing buildings that have a standard width such as poultry houses, hog houses, and some types of barns. (3) The cubic foot method. This method is used sometimes in the valuation of dwellings. When properly applied, it is perhaps more nearly accurate for valuation purposes compared to other methods described. There are some practical difficulties in applying this method due to the number of measurements required. (4) The capacity method. This method sometimes is employed in valuing dairy barns, poultry houses, corn cribs, and other storage houses. For example, normal construction costs on a per cow, per hen, or per bushel capacity basis may provide a good starting point in determining the value.

Normal building upkeep

The estimated average charge for building upkeep should be based on the type, quality,and condition of the existing farm buildings, taking into account typical operbion of the farm and the normal level of farm operating costs, including materials, paint, etc. In fixing such a charge, the appraiser should consider carefully the customary upkeep practice in the community. Normal upkeep costs should not include depreciation and replacement, but rather should be an estimate of the average annual costs of maintaining the existing farm improvements in a serviceable condition over a term of years.

Well-constructed buildings not subject to hard usuage or severe climatic conditions may require a minimum of upkeep, whereas buildings poorly constructed or subject to damaging climatic conditions or hard use require much more expenditure. The upkeep of buildings of little or no use to the farm should not be included as an expense item unless they would be maintained under usual conditions. For these reasons, it is not practicable to establish fixed rates or percentages for use in estimating normal upkeeo costs for all farm buildings, but each building or set of buildings should be considered on an individual basis.

NORMAL AGRICULTURAL VALUE OF THE PROPERTY

The normal agricultural value should be established in accordance with the definition outlined in Chapter III. As defined, this value takes into account the important factors having a bearing on the normal agricultural value of the farm.

Comparison

Comparison is a basic element in practically every step of the appraisal process. As an example, it is used in forming the various judgments with respect to such items as location and home desirability, crop adaptability, yields, quality of soil, buildings, markets, hazards, and in some areas over-all acre values for the farm. Comparison of the farm being appraised with the benchmark farm most comparable in the area provides dependable standards for this purpose. The normal agricultural value on such benchmark farms reflects the sales and production history for the area as well as the approved standards. Comparisons with farms previously appraised also are helpful and by continuous checking and observbions over a period of years, appraisers are able to arrive at and maintain consistent levels of farm values.

Rate of return

The rate of return is a measure of the earning power of the farm and it is an important value check. It is recognized as a principal value factor affecting normal agricultural values in many areas. Where rental terms are well established, the rate of return to the landlord provides the better check and is more dependable than the rate of return to the owner-operator which involves a series of estimates. Where community standards of values reflect outside income, the rate of return decreases in importance as a check. It is logical for an owner to be satisfied with a lower rate or return where location, home desirability, and outside income opportunities increase when compared to situations where these favorable factors are not present. The rate of return may vary also by type of farming. Hazards of production and marketing usually are associated with higher rates or return compared to areas where these unfavorable income involves several calculations, each of which requires a separate estimate and is subject to some error, and recognizing also that the rate or return varies as indicated, above, capitalization of the net income is not regarded as dependable approach to value. However, it is valuable when used as a check, giving appropriate consideration to the particular conditions that exist.

Livestock carrying capacity

In the appraisal of ranches and dairy farms, the carrying capacity in terms of the number of beef, cattle, sheep, or milk cows is a measure of the productive capacity and thereby provides an approach to the normal agricultural value. Value standards for ranches or dairy farms of a given quality on a per head or per cow basis assist materially in arriving at proper values and also is a valuable check between areas and different quality farms. In using this approach, the important factors of carrying capacity under typical operation, the net income per unit carried, location, home desirability, and the other value factors need to be considered.

Informed local opinion

The appraiser usually develops and maintains contacts with informed farmers, agricultural leaders, and local business men in the area. In many instances they have good information regarding differences in production, desirability and value of farms and ranches in their neighborhoods. Information so obtained is helpful and provides another check in the valuation process.

PRESENT AND NORMAL MARKET VALUES

In addition to the normal agricultural value, the present and normal market values should be determined..... It should be kept in mind that present and normal market values are all-asset values and therefore take into account any non-agricultural assets that would affect the sale price of the property. The records applying to farm sale prices over a period of years provide the most tangible evidence for establishing present and normal market values.

VALUATION ON BASIS OF ANTICIPATED IMPROVEMENTS OR REPAIRS

Valuations predicated on the construction of anticipated improvements or major repairs of existing improvements are justified in the appraisal when (1) the improvements or repairs are to be completed soon after the appraisal rather than over a period of years, and (2) the benefits to be derived as a result of the improvements or repairs are reasonably ascertainable. Ordinarily, (2) above will be met only where the benefits to be derived from such improvements or repairs have been adequately demonstrated on similar farms in the area.

The plans for proposed improvements or repairs should be sufficiently complete for the appraiser to forecast with assurance to the effect on the valuation of the property. Such plans or specifications ordinarily will be furnished as a part of the application. However, while making the appraisal it may be apparent in some cases that repairs are needed to prevent rapid deterioration of some major improvements essential to the satisfactory operation of the farm, and no plans accompany to accomplish the purpose. In cases of these type the appraiser may specify as a requirement that certain repairs be made in order to maintain the security.

In any case where values are based on anticipated improvements or major repairs, the regulations in the Federal Land Bank Manual under the heading "Eligibility for loans when proceeds held for deferred use" require that the property be reinspected after such improvements are made to determine if they meet the requirements necessary to sustain the values.

The application of the above policy may vary somewhat with individual cases. As a general statement, where the valuation of the farm based on anticipated improvements is materially higher than the "as is" value, usually both the "as is" and the "as will be" values should be given. Variations will be found, for example, in the type case where the successful operation of the farm depends upon the improvement program being completed in order for the property to qualify as satisfactory security for any loan. In this type case the "as will be" value should be the basis of appraisal, and a requirement that the improvement program be completed should be made. On the other hand, where the farm on an "as is" basis can be successfully operated and it is satisfactory security for a loan, it may not be necessary to establish the "as will be" value or to require that the improvement program be completed if the credit needs can be met on an "as is" basis of valuation.

Definite specifications usually are necessary in order to properly value proposed new buildings or buildings where major repairs are planned. The valuation of an existing building requires a careful inspection of the type, size, construction, etc., and obviously the valuation of proposed improvements should be based on careful consideration of the plans or specifications.

Valuations may reflect increased benefits as a result of irrigation, drainage, or levee improvements if the results can be forecast with reasonable assurance. The effectiveness of irrigation wells can be judged in advance only in areas where the evidence is conclusive that a satisfactory supply will be obtained and the costs can be determined. The benefits derived from land and levelling for irrigation present no unusual valuation problems, although in some cases after major levelling operations the land is not as productive for a few years as is the case of older developed lands. The installation of drainage may present problems in some cases with respect to the benefits to be derived. Where the results of the drainage program can be estimated with confidence, values may be predicted on the basis of the proposed improvement. Where there is reliable information on flood stages and related factors which will determine the benefits to be derived from levee improvements, valuations may reflect those benefits. There are a number of uncertainties regarding the consideration of the type improvements mentioned above that will require the assistance of an engineer appraiser before benefits can be determined.

The problem of giving added value to lands to be terraced requires special consideration of the terracing practices common to the area. In some parts of the United States where terracing is commonly practiced and these terraces are customarily well maintained, values may be predicated on terraced lands or lands to be terraced with the expectation that erosion control will be maintained. However, where one individual might have the experience and desire to terrace, the permanence and effectiveness of such improvements cannot be assured in areas where typical farmers are not interested in terracing and do not recognize its advantages.

Where a farm is not on a public road it may be necessary, in some cases, to assign values contingent upon the applicant's obtaining a deeded right-of-way or permanent easement of access to the property. In other instances values may be assigned on the basis of the applicant's being able to secure a permanent right-of-way to a water supply for livestock, or for other necessary purposes.

From the foregoing discussion, it is evident that there are many farms on which improvement programs are in progress or are planned that will affect the normal agricultural values and that should be reflected in appraisals. On the other hand, there are some situations where, as a practical matter, it is desirable to value the property in its present condition, even though funds are requested for improvements or repairs. Where the credit needs can be met on this basis, it avoids the necessity of making requirements.

OTHER TYPE CASES

Additional security

The regulation governing the making of loans where additional security is involved is set forth under the heading "Additional Loans" in the Federal Land Bank Manual. The provisions in this connection are applicable where the existing land bank loan exceeds 65 percent of the normal agricultural value as currently established. In such cases involving additional security, the appraiser should furnish valuations of (1) the old security alone, (2) the new security on the basis of its use as part of the combined security, and (3) the combined security. The appraiser should keep in mind that, since the additional loan is combined with the existing loan, it is not required that the additional security alone meet all the usual requirements.

Division of existing loans

The division of an existing loan as provided for the Federal Land Bank Manual under "Division of loans" is similar in many respects to a partial release, and the principles governing appraisals in connection with partial releases may be applied for the most part to divisions.

Purchase money mortgages and real estate sales contracts.

Appraisals sometimes are requested by the bank in connection with pledging purchase money mortgages and real estate sales contracts as collateral for bonds. They should be made on the same basis and on the same form as appraisals for new loan.

CHAPTER XII

THE LAND BANK APPRAISER*

The land bank appraiser occupies a vitally important place in the land banks' part of the Farm Credit System. On him, in appraising individual farms and ranches, rests the responsibility of properly applying the appraisal standards adopted by the Farm Credit Administration for uniform use throughout the Nation. It is essential that he be unbiased in his work and exercise sound judgment based upon a careful investigation into all pertinent facts and circumstances of the individual case. In this work he is expected to do justice to the applicant for a loan and at the same time protect the interest of the bank and of the holders of its bonds. To this end he is appointed as an employee of the Farm Credit Administration, is assigned to serve a land bank, and is supervised by a representative of the Appraisal Division of the Land Bank Service.

Legal Status

The Federal Farm Loan Act provides that the Farm Credit Administration shall appoint land bank appraisers for each farm credit district. Their compensation is to be fixed by the Farm Credit Administration and paid by the Federal land banks to which they are assigned. The act definitely states that land bank appraisers shall be public officials.

CIVIL SERVICE STATUS

Land Bank appraisers paid directly by the Federal land banks are in the competitive civil service and personnel actions affecting them are carried out in conformance with laws and regulations applicable to the competitive civil service. With respect to salaries, land bank appraisers are not covered by the Classification Act of 1949 because of their compensation is paid directly by the Federal land banks rather than from appropriated funds. In this regard, however, the Farm Credit Administration prescribes the salary ranges under the Classification Act of 1949. For example, the salary range for the appraisal assistant grade for land bank appraisers is kept the same as the salary range for an employee having a GS-5 rating. Regulations covering other personnel matters such as retirement, disability, separation, reinstatement, insurance, etc., are contained in the General Administrative Manual and inquiries concerning any of these subjects should be directed to the chief reviewing appraiser.

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*Source: Chapter II, MANUAL FOR LAND BANK APPRAISERS.

The following land bank appraiser field positions have been established: Appraisal Assistant; Junior Land Bank Appraiser; Associate Land Bank Appraiser; Senior Land Bank Appraiser; Principal Land Bank Appraiser. The engineer appraiser has been established in a similar manner; for example, and Associate Engineer Appraiser corresponds to an Associate Land Bank Appraiser.

SUPERVISION AND INSTRUCTION OF APPRAISERS

The chief reviewing appraiser in each farm credit district is a field representative of the Farm Credit Administration and is under the direction of the Chief of Appraisals, Appraisal Division. It is his responsibility to see that the associations and the bank are furnished with dependable appraisals of properties on which applications are submitted or on which loans have been made. He is also responsible for the proper handling of administrative duties pertaining to the conduct of the office. He advises with the bank on all matters of appraisal and loan standards and is regarded as the final authority in the district on appraisal standards of the Farm Credit Administration and on their application to district conditions. It is his responsibility (1) to select and recommend applicants for appointment as land bank appraisers; (2) to train appraisers in their duties; (3) to interpret to them the objectives, policies, and rules and regulations of the Farm Credit Administration; (4) to direct the assignment of and to supervise appraisal work within the district; (6) to review land bank loans from the standpoint of their acceptability as collateral for bonds, reporting his findings to the Director of Land Bank Service; and (7) to give prior approval on behalf of the Director of Land Bank Service to loans involving amounts in excess of $100,000 and to other transactions required by law or regulations to have prior approval.

The work of each appraiser is reviewed periodically and reports on the appraiser's qualifications, ability, and performance are furnished to the Chief of Appraisals. This review serves as a check on the quality of an appraiser's work, enables the chief reviewing appraiser to assist the appraiser in overcoming any weakness that may appear in his work, and give him opportunity to offer constructive suggestions for correction and improvement.

It is the duty of the chief reviewing appraiser to keep in close touch with the appraisal engineering work and advise with the engineer appraiser in charge of such work in the district regarding the areas where investigations are needed and the extent of the work to be performed. He reviews and analyzes the reports that are submitted and makes recommendations to the bank concerning their adoption. The approved reports, or necessary information obtained from them, are made available to the appraisers and to other persons designated by the bank.

The engineer appraiser in the district is part of the chief reviewing appraiser's office. He has the responsibility of making investigations and preparing complete reports. He advises with the chief reviewing appraiser and the bank with respect to drainage, irrigation, flood control, and other technical problems. The engineer appraiser works under the administrative supervision of the chief reviewing appraiser, but he is directly responsible to the Appraisal Division for the quality of the engineering work performed and of the reports rendered. His work, other than that performed in the making of appraisals, is reviewed by the Chief Engineer Appraiser of the Washington Office.

RESPONSIBILITIES AND DUTIES OF APPRAISERS

Responsibilities

It is the responsibility of the land bank appraiser to know the expressed purposes and objectives of the Farm Credit Administration and the principles and policies contained in the manual, to give every case full and thorough consideration, and to reach sound conclusions.

Duties

The duties of a land bank appraiser include the following:

(1) Examining in the field and reporting on farm real estate in connection with applications for loans; and, upon request by the chief reviewing appraiser, investigating and determining the credit desirability of the applicants; and making recommendations as to the extension of credit.

(2) Appraising bank-owned real estate for the purposes of fixing the asset values at which the banks may carry acquired farms, and developing information as a basis for establishing sale prices and rental terms.

(3) Appraising farms in connection with delinquent loans, in order to advise the association and the bank as to the condition and value of the property.

(4) Appraising for partial releases, when such information is needed to enable the bank to act advisedly on an application for release. In such case, the bank is interested in the adequacy of the security to support the remaining loan after the release is granted and in any information bearing thereon.

(5) Reappraising farms for the purpose of determining the disposition of any insurance funds recovered when buildings or improvements on a farm mortgaged to the bank are damaged by fire or windstorm.

(6) Servicing loans, making collections, selling farms, renting, and managing bank-owned properties also may be assignments of an appraiser, incidental to the performance of his appraisal duties.

(7) Rendering appraisal service to other agencies as assigned by the chief reviewing appraiser.

It is inconsistent with the status of land bank appraisers as public officials that they be assigned other duties, even for temporary periods, in which they would take actions such as binding the Federal land banks or the national farm loan associations to any contracts or future action, or soliciting loan applications and appraising the security offered in those applications.

In order that appraisers may carry out their statutory functions most effectively, it is desirable that they have a general knowledge of the loan and credit problems of the Federal land banks and of the national farm loan associations. It is, therefore, the policy of the Farm Credit Administration that, through consultation and collaboration between officials of the Federal land bank and the chief reviewing appraiser in each district, there be developed with and maintained a continuing program designed to provide appraisers with training through actual work experience in the loan and credit activities.

Training through actual work assignments as described above may be interspersed with appraisal assignments, or may be full-time for temporary periods. Each such assignment is to be made by the chief reviewing appraiser upon having determined that the nature of the particular assignment should contribute materially to the appraiser's effectiveness in the discharge of his statutory duties and responsibilities and will not involve duties inconsistent with the appraiser's official status.

Full-time work assignments in the banks and associations may not exceed 90 calendar days in any 12 consecutive months for any appraiser. If a long assignment is desired, the appraiser should be furloughed or his appointment as a land bank appraiser should be terminated.

PENALTIES FOR FALSE STATEMENT OR WILLFUL OVERVALUATION

Under Federal Statute, any land bank appraiser who knowingly makes any false statement or report, or willfully overvalues any property, for the purpose of influencing in any way the action of a Federal land bank or a national farm loan association upon any application, advance, purchase, purchase agreement, commitment, or loan, or any change or extension of any of the same, is subject to a fine of not more than $5,000 or imprisonment of not more than two (2) years or both.

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CHAPTER XIII

APPRAISER'S REPORT*

PURPOSES OF THE REPORT

The appraiser's report serves a three-fold purpose. First, by reason of its arrangement and the information required, it assists the appraiser in the logical development and analysis of the case and in arriving at sound conclusions. By recording his findings systematically and organizing the facts obtained, he is able to apply the principles involved, crystallize his ideas, and put his conclusions in definite form.

Second, the report, in presenting the facts and conclusions, furnishes a basis for action on the case by the association and the bank.

The third purpose of the appraiser's report is to serve as a permanent record of the facts and circumstances with respect to the security existing at the time the loan is made.

Organizing and Reporting Information

The offering of a loan is an important decision. In the first place, the bank has the responsibility of serving agriculture as fully and consistently as possible. There are many cases with respect to which a decision is not easily made. There are favorable and unfavorable factors to be balanced. If any pertinent facts are undeveloped or if any improper conclusions are reached by the appraiser, the bank may fail to serve a worthy applicant. On the other hand, if the bank makes a loan that is not justified, it may not only assume an undue risk but it may contribute to the failure of a farmer, resulting in the loss of his life savings.

An effort has been made to outline the report so as to lead to a logical development of the information and to proper conclusions. The value of these observations is, first, to assist him to reach his own conclusions properly and soundly and, second, to record and furnish the association and the bank with full information regarding the security.

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*Source: Chapter VI, MANUAL FOR LAND BANK APPRAISERS.

Appraisers in preparing their reports should not feel that their opinions and conclusions alone are sufficient and that it is not necessary to furnish a clear and complete picture. They should avoid becoming mechanical in completing statements or in describing conditions, and should avoid using stereotyped expressions that do not give the proper information. Also they should give the unvarnished facts and avoid overemphasizing certain features or omit certain details that might cause the association and the bank to reach improper conclusions. The report is expected to answer satisfactorily, completely, and without bias, all questions that may properly be raised regarding the austerity.

Report as a Basis for Action on the Application

A loan may not be made unless the appraiser's report on the security is favorable. If the appraiser states that a property is not suitable security for a loan, he should set out specifically the reasons for his conclusions.

Report as a Permanent Record

Many Federal land bank loans are made for periods exceeding 30 years. The report is a permanent record and as such should be neat and permanently legible. The report should be filled out with ink or typewriter and signed with ink by the appraiser after it has been carefully checked. In no case should an appraiser sign a report form in blank or before it is completely filled out.

PREPARATION OF THE REPORT

The appraiser makes his report on a form similar to the one shown in Exhibit "G". Every statement in the report applicable to the particular case should be completed. Portions of the report form not applicable to the case should be checked or marked to indicate that they have not been overlooked. The appraiser's report should be complete, but limited to matters pertinent to the appraisal of the property. He should bear in mind that the report is not made to justify his conclusions but to furnish all the data obtained in connection with the case. If his conclusions are correct, they will be supported by this information. Following are suggestions offered on the preparation of the various sections in the appraiser's report.

Location, Type, and Quality of Farm

When this section of the report is properly filled out and supplemented by certain information on the plat, it enables the person analyzing the case to visualize the advantages or disadvantages of the setting of the property, including distances from market points and important centers, from school and from church. The analyst can observe on what kind of road the property is situated, whether it is an all-weather road, the distance from the nearest highway, and whether the property has or has not a suitable right-of-way. The appraiser should give all important particulars as to the location. He should not name some insignificant shipping point or sidetrack and fail to mention an important center of population a little further away.

Careful attention to reporting on the type of farming in the community is important, particularly when the adaptation of the farm is materially different from the type of farming practiced in the community. In most highly developed communities, the essential conveniences and services are available. Reporting this information is important for the lack of such conveniences and services in a particular case usually affects the desirability of the property.

While the bank and the association may have considerable general information concerning elevation, rainfall, and length of growing season that prevail throughout the district, the reporting of this information should accurately reflect these conditions in the locality in which the property is situated. The report should summarize any climatic deficiencies, such as drought, and their effect upon the property and special hazards such as storms, unfavorable winds, frost, and hail, which may affect production or living conditions in the area.

The dependability of a satisfactory water supply is of the utmost importance and in all cases this section of the report should show whether the property is adequately supplied with domestic water.

The section of the report pertaining to minerals is brief, and in many cases, may be unimportant but there are instances in which it is of importance. In every case where the future operation of farm may be affected by mineral development or mine subsidence, the appraiser should give full particulars, if necessary, using an additional sheet or a special mineral report form.

The appraiser is expected to accurately rate the farm in comparison with the average in the community with respect to location, quality of soils, value of improvements, and general desirability and salability. He is also expected to rate the area and the farm in accordance with the definitions of area and farm classes. These ratings should be consistent with the description of the property in other parts of the report.

Earning Power of Farm (Typical Operator - Usual Conditions)

This is one of the most important parts of the report. In it the appraiser should give a picture of a typical cropping program and the results in terms of yields, total production, and normal sales. The appraiser should base this on present development of the property and customary methods of operation, and it is expected that all of the acreage will be accounted for. He should avoid setting up an ideal cropping system or type of management which is not being followed by typical operators of similar properties. Crop acreages should reflect practices expected to be followed under unusual management, with such consideration to acreage allotments as is consistent with adopted policies of the Farm Credit Administration. Adopted normal prices should be used in computing income, with such adjustments for grade, quality, and local marketing conditions are justified by the circumstances of the case.

The income and expense statement is expected to show estimated operation by a typical operator and should be consistent with the estimated earnings of the farm. Where rentals are customary, it is important also to furnish the normal rental of the property. The information given in the income and expense statement should be carefully considered and so reported as not to mislead the bank by inclusion of unusual conditions without explaining them. The income expense statement, of course, should include agricultural income only from the property being appraised and expenses incurred in connection with its operation; and where the property under consideration is operated with other lands the statement should still reflect separate operation. In the case of the farm income, there should be shown in the remarks section of the report what the net income, if any, would be with estimated taxes, insurance, and upkeep chargeable to the dwelling deducted from the total expense items.

The outside income section should be completed in every case where a typical operator of the property would have outside income under normal conditions, and full information should be furnished regarding the source and amount of dependable outside income. The appraiser should consider outside income on a cash basis from the viewpoint whether the typical operator would have time to work off the farm. The figure shown for outside income should be the net amount on a normal basis after allowance for the cost of obtaining it.

Description and Valuation of Land

In describing the land, extremes should be avoided. The classification should not be in such detail that the difference between classes is insignificant and confusing; neither should the classes be so broad as to include widely different kinds of land, even though the values might be about the same. The breakdown to show different classes is an important features of the report in giving the bank and association a picture of the property. The appraiser who "lumps" the various classes with the thought in mind that, although there is a substantial acreage of poor land included, it is offset by about the same acreage of land of superior quality, not only fails to furnish a reliable picture of the property but at the same time is liable to serious error. This section of the report is also for the purpose of adequately describing the topography and soils, crop adaptability, ease and economy of operation, and any other important features such as erosion, noxious weeds, and drainage. If the appraiser is certain of the soil survey designations, he may use them; but he should also describe the soil in such a manner that the association and the bank will have an accurate idea of the topography and quality of the land on every part of the farm.

Description and Valuation of Buildings

All information pertinent to the description of a particular building should be developed in the report. It should be possible to tell from a report whether a house has modern conveniences, basement, etc. Important equipment in barns and other buildings merit special mention. A general description of the buildings as to adequacy and balance or deficiencies, together with general comment on the condition, appearance, and location should be included.

Purchase Price of Farm

This section of the report is designed to show the purchase price of the property and the improvements made since purchase. The purchase price should be reported when the appraiser, during the course of his investigation, is able to obtain the necessary information. In cases where the purchase price appears out of line or not representative of the general sales level, it should be investigated before including it in the report as factual information. Improvements made since purchase should include the outlays for major improvements or substantial repairs of a rehabilitating nature, but should not include the outlays for minor repairs which usually occur from year to year. If the farm was purchased several years before the appraisal, the year in which improvements were made should be shown.

Plat

The plat should show, through the proper use of the land-use legend which follows, the outline of the property, the location and the area outline of cultivated, meadow, idle, pasture, woodlands, and any waste areas; also, the location of the farm buildings, roads, streams, irrigation and drainage ditches, wells, stock ponds or tanks, power lines, schools, churches, etc.

In making a map of the farm, it is necessary that the appraiser definitely locate himself with respect to a corner of witness point and work from there. It is not expected that he makes a survey of the property and measures each field to the fraction of an acre, but he should be able to estimate closely the approximate area of each field and the approximate length and direction of the boundaries. Where buildings are located near the boundary lines, it is important that the lines be accurately located to assure that the buildings are a part of the security being offered. Aerial photographs often are of material assistance in mapping farms.

In districts where farms are irregular in shape and difficult to describe, the outline plat of the farm often is checked with the legal description by someone in the bank who is trained for that work. This saves valuable time of the appraiser in the field. However, where this is not done and an outline plat is not furnished with the application, it is necessary for the appraiser to make his own outline from the legal description given in the application.

A neat, well-prepared plat is a desirable part of any appraiser's report. It should be remembered, however, that the plat is only one of several features of the report intended to enable the appraiser to present information for those who use his report. It is by no means the primary feature of the report and should not consume too much of the appraiser's effort and time.

Acceptability of Security and Loan Terms

In determining whether a property is satisfactory security for a loan, the appraiser should have clearly in mind the security standards. The loan term should not be restricted unless it is necessary to hold a loan to 20 years or less in order to maintain the income and value standards on which the appraisal was based. The provision for limiting the loan term is only for the purpose of qualifying some properties as being satisfactory security for shorter term loans were, without such limitations, the hazards would preclude qualifying them. Reporting on this part of the appraisal, therefore, is important in order that any loan term restriction made is fully justified and supported by the information developed in other parts of the report.

When the appraiser is unable to qualify the property without restricting the term, he should specify a loan term of 20 years or less. If he feels that more than 20 years would be permissible, a dash should be placed in this section of the report which will show that any loan term offered by the bank will be satisfactory insofar as security factors are concerned. The chief reviewing appraiser will advise the appraiser if there is an adopted policy with respect to any special areas, type of farming, etc., which will require him to restrict the loan term in all such cases.

The principal factors of farm valuation have an important bearing on whether it is necessary to restrict the loan term. Typical operation under normal conditions should be relied upon with respect to such factors as soil-conserving practices, standards of building upkeep, stability of the area, etc. Where income and value standards may be affected by definite hazards under typical operation, it is necessary to restrict the loan term. Examples of some hazards of this type are uncontrolled erosion or rolling farm land, dependence primarily on pump irrigation from ground water, and some highly specialized types of farming that are subject to many unknown factors which may affect either the value of the security or the market for the product.

Requirements

When an appraiser shows certain requirements to be fulfilled, the bank must observe them in closing a loan based on his appraised value. If the application shows specifically that an improvement which will materially affect the value of the farm is to be made, the estimated income, values, etc., shown in the appraisal report, should reflect the improvement and a requirement to that effect should be specified. Such a requirement should be sufficiently specific to enable the bank and the association to see that it is fulfilled as intended by the appraiser. The description of the required improvement should be in physical terms and it then becomes the responsibility of the bank and the association in closing the loan to make the necessary financial arrangements with the borrower to assure compliance with the requirement specified.

In some cases where the applicant has not proposed a specific improvement, the appraiser may find it necessary to make certain requirements as a necessary basis for his valuations, qualifications of the property as security, etc. In this category may fall such matters as repairs to prevent deterioration of buildings, obtaining a right-of-way to the security, or the furnishing of certain evidence of an irrigation supply.

Where either of the above types of cases is involved, there may arise a need for knowing the appraiser's opinion of the property if the specified requirements are not fulfilled. For this reason, it is well to show also the normal agricultural value "as is" and to state whether or not the property is acceptable security without the requirements being fulfilled.

Remarks

This section of the report should not include a rambling discussion or restatement of factors that are obvious from other parts of the report. The remarks should cover, in brief form, any unusual or outstanding features of the property or circumstances in connection with its ownership and management. A brief statement characterizing the property as to its reputation and desirability may be in order. Under "remarks" the appraiser should round out any deficiencies in the information furnished elsewhere in the report.

Report as a Whole

The arrangement of the report and the information required are such that, when properly prepared, it will furnish an accurate, complete work picture of the farm, and will enable the association and the bank to determine the proper action to take on the loan application insofar as the security is concerned.

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CHAPTER XIV

OUTLINE OF PROCEDURE FOR APPRAISAL STANDARDS STUDIES*

Obtain Sales Data and Prepare Graph

Since the trend of prices farmers have been willing to pay for farms over a period of years is such an important factor in determining the normal sales period, obviously the sales data should be carefully selected in order to reflect the actual sales levels. In most areas, the number of sales on all types of farms in each year is not sufficiently large so that the size of the sample would eliminate inaccuracies if averaged statistically. Accordingly, insofar as possible, only sales information on essentially similar farms of similar classes and types for each of the years should be used in the sales register. By essentially similar farms is meant those of about the same size, same amount of open land, same type of improvements, etc. The record should include sales from about 1937 or 1939 to date, and usually a few sales that are representative of the general level at which farms were changing hands during each of the years will be adequate. In a uniform country an "off-color" farm sale will be obvious, but in areas where there is little uniformity, cursory reviews will be necessary in order to be sure that farms of essentially the same type and quality will be included for each year.

Each farm sale used should be recorded, and ordinarily should be outlined and identified on a map. A summary of the sales register should be made showing for each year (1) the number of sales; (2) the average size of farm; and (3) the average sale price per total acre, or per cultivable acre, or per cow capacity, or whatever unit is appropriate.

For convenience in observing the trend of sales, and to assist in recognizing and analyzing any variations from the national trend, a graph should be prepared showing indexes of farm real estate sales for the study area and the U.S.

Apply Sales Checks

To assist in determining whether the normal sales period for the study area is the early 1946 period prescribed at the national level, it is necessary, first, to apply to the area sales register the following checks that have been derived from the national index trend:

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*Source: UNNUMBERED FARM CREDIT ADMINISTRATION INSTRUCTION.

1. 1939-1953 average of the average sales price each year.
2. 1937-1941 average plus 45% of the increase from that average to the 1951-1955 average (using 1938-1942 or 1939-1943 instead of 1937-1941 usually will not result in material error).
3. 65% of the 1951-1955 average.

The foregoing checks were derived from the relationship of the March 1, 1946 U.S. index to the average U.S. indexes for the periods to which reference is made. Usually this statistical approach will indicate a range rather than pinpoint a specific period.

Consider Other Value Factors

Consideration should be given to such factors as the reputation and development of the area, including the stability of ownership, and adoption of progressive practices. Trends in the long-time yield history of the principal crops and the livestock carrying capacity in the area resulting from the use of fertilizers, insecticides and improved varieties, or from erosion, and declining fertility should be analyzed. The amount, dependability, and general trend of net farm income, together with any changes in opportunities for dependable outside income in the area should be studied carefully.

Select Normal Sales Period

Following a study of the sales checks, the value factors enumerated above, and any other factors having a bearing on value trends, a decision should be reached as to the appropriate year or years in which the sales level in the study area was consistent with the national level of early 1946 sales prices. Where the normal sales period selected is other than 1946, there must be a sound basis for the deviation. (If studies have been completed in similar areas nearby and the normal year established, only the sales data in and near the normal period need be compiled, to facilitate choosing support farms, unless there is reason to believe a different normal year would be determined by developing further information.)

Select Benchmark and Support Farms

The ideal benchmark farm is one that is representative in every respect of the type and class for which a benchmark is needed, and one that is not likely to change materially in the near future. Such farms are difficult to find, but care should be exercised to select on that nearest approaches the representative farm. It should have about the average set-up in improvements, average amount of open land or of irrigated land, average principal crop allotment, etc. It should be one that is easy to see.

A benchmark farm should be selected for each class of farm on which appraisals will be requested. Also, if there is a material number of different type farms, such as grain, livestock, dairy, etc., a benchmark for each type in each class should be selected. Because of the difficulty in finding all that is desired in a benchmark farm, the person or persons making the study should, at the time of reviewing the sales register farms and obtaining other local data, be on the lookout for farms that might be used.

For each A and B, and most C benchmark farms, 3 or 4 comparable support farms that sold during or as near the normal sales year as possible should be selected. It is important that a careful investigation be made of the circumstances surrounding these sales to be sure they represent the market for that year - that is, they did not sell too low or too high to be representative of the market. These support farms should be typical of the area, type, and class of the benchmark farm and preferably have had a minimum amount of change since the sales took place. Ordinarily, no support farms should be set up for C- or D+ benchmark farms for the reasons stated subsequently.

Value Benchmark Farms

In making the study, it is desirable to start with the best class benchmark farm for which support farms are availble. The benchmark farm then should be valued on the basis of its support farms after they have been compared with it as to location, buildings, soils, etc., as indicated on the attached suggested form. In the review, particularly when there are several in the party, it again is important to start with the best benchmark farm for which support farms are available, and to see only the supporting sales for that particular benchmark rather than to consider sales that may be passed enroute which are to be used for other benchmarks. A similar procedure should be followed for each of the other benchmark farms with support farms.

The foregoing applies to valuing most A, B and C benchmark farms. Ordinarily, in valuing a C- or D+ benchmark farm the "justified" portion of the definition of NAV assumes added importance. Often it will be found that such lower class farms sell unjustifiably high relative to prices for which better farms are sold during periods regarded as normal for the better class farms. Usually, therefore, such benchmark farms should be valued on a basis consistent with the values placed on the better benchmark farms, rather than to rely on comparisons with sales of other low class farms. Likewise, if it is found to be impossible to find supporting sales for some higher class benchmark farm, it should be valued on a basis consistent with the values placed on the supported benchmark farms rather than to attempt to support its value with sales on farms that are not comparable to it.

Prepare Report

The report should be as brief as possible but should contain sufficient supporting information to justify the conclusions reached. Where there are existing studies, a new report should be prepared rather than to make a supplement to the old report, which would cause the user to have to refer to two reports. Important items to be covered in each report outlined hereafter.

A. Title Page

This page should carry the title "Appraisal Standards Study Report", the county, State, Farm Credit district, date and the statement "For Administrative Use Only". If desired, it may carry the names and titles of the persons who made the study and those who participated in the review.

B. Procedure

Set out briefly the procedure followed in compiling and assembling the data used, and in selecting the sales and benchmark farms. If not carried on the title page, the names and titles of the persons who made the study and those who participated in the review should be included.

C. Description of the Area

Furnish a concise statement on the agriculture of the area, including a discussion of recent trends other than the general trends reflected in the national picture. Include any pertinent information regarding progress or lack of press and factors that have or may affect land values. It should be as brief as possible.

D. Yields, Carrying Capacity and Income

Where available, historical yield and carrying capacity data should be included. A brief statement should be made commenting on trends in yields, carrying capacity and net income.

E. Conclusions

Comment briefly on the effect of any unusual trends reflected by the information compiled. State the year in which farm sales approximated the NAV level established in the study, giving the principal supporting facts on which the conclusion is based.

F. Sales Data

The summary of the sales register should be given in a table. Also, the graph of indexes of sales for the area and for the U.S. should be included. (The detailed register and county map showing all sales should not be included, but should be preserved in the Office of the Chief Reviewing Appraiser.)

G. Comparable Sales

Complete information, as suggested on the attached form, should accompany the appraisal report for each benchmark farm for which support farms are used. It is important to describe clearly any changes which have taken place in the support farms since they were sold.

H. Benchmark Farms

A complete appraisal report for each benchmark farm should be included. More than usual care should be exercised in preparing these reports. The information should be complete and the reports should, of course, be accurate and consistent. For quick reference, the normal agricultural value per acre (or other appropriate unit) should be shown in the report near the normal agricultural value of the farm.

I. Map

A map should be included showing the location of each benchmark farm and of each of the comparable support farms. Usually a county map or a portion of one can be used for this purpose.

Instructions for Preparing and Plotting Indexes of Farm Real Estate Sales

In order to convert area sales to index numbers, divide 100 by the 1947-49 average sales price to get a conversion factor, then multiply each year's average sales price by that factor.

Example:

If the average sale price per acre in 1947 = $60 (from sales register)
" " " " " " " " 1948 = 70 " " "
" " " " " " " " 1949 = 80 " " "

60 + 70 + 80 = 210
210 divided by 3 = $70 - average for 1947-49
100 divided by 70 = 1.43 - conversion factor

If the average sale price in 1937 = $20 (from sales register)
20 x 1.43 = 29, the index for 1937

Multiply the average sale price shown in the register for each year by a conversion factor, determined in the manner shown in the example above, to arrive at an index for each year. Plot these indexes on a sheet of graph paper. Then on the same graph plot the following U.S. March 1 indexes (1947-49 = 100) of value of farm real estate per acre:

1937 - 49
1938 - 50
1939 - 49
1940 - 49
1941 - 49
1942 - 53
1943 - 58
1944 - 67
1945 - 74
1946 - 84
1947 - 94
1948 - 101
1949 - 105
1950 - 103
1951 - 119
1952 - 132
1953 - 132
1954 - 128
1955 - 133

CHAPTER XV

PROPOSED NEW LEVEL OF NORMAL PRICES, COSTS AND VALUES*

Consideration in Selecting Normal Price and Cost Levels

Consideration in selecting normal price and cost levels shou represent realistic estimate of probable future levels of market price and costs, shaded on conservative side to allow for any err in overestimating level. Possibility of error must be recognized Impacts upon Normal Agricultural Value level and upon administration of appraisal and lending operations should be explored. NAV level should be conservatively consistent with realistic levels o prices and costs but if this represents a substantial increase ov present NAV level, necessity for association and bank loan committees to adjust loan value ratios to variations in risk on indivi cases must be understood.

It is not expected that the new Normal Agricultural Value le will be increased as much as normal prices and costs. The historical tendency has been for progressively smaller proportions of far income to be translated into land values. Furthermore, farm land values have been gradually losing pace in relation to the trend of commodity prices received by farmers. It is expected that these trends will continue. Moreover, increased cash farm operating expenses and higher living expenses will tend to limit amounts of income, farmers can set aside to pay for land. Acreage controls and marketing quotas also will limit the amount of income available to pay for land even though commodity prices may be at a relatively high level.

Special Problems

Even for short-range forecasts of about one year which should involve fewer uncertainties, actual experience shows considerable error. An analysis of 631 general economic forecasts made by the former Bureau of Agricultural Economics during the period 1923-50 showed an accuracy evaluation score of 75. This compares with a score of zero if predictions were completely wrong, a score of 50 [illegible] cast were perfect. Price forecasting accuracy was found to be much lower than accuracy in series partly or largely outside the price field. Forecasts of Prices Received by Farmers had a score of 60 while the other three series, Industrial Production, Demand and Farm Income, all had scores of 77 and 78.

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*Excerpts from Memoranda by the Economic and Credit Analysis Division. Farm Credit Administration Instructions.

The hazards in forecasting any economic activity and especially long-range prices and costs arise from the wide variety of human endeavors that affect prices and costs and the difficulty in predicting such human behavior. For example, human actions affecting future prices and costs and which, therefore, require decision as to expected behavior would include: decisions by the Congress and the Government with respect to price supports, production controls, tariff policies, defense spending, budget policies and taxes; the rates of technological advance in agriculture and industry; wage rate negotiations between labor unions and employers; and a wide variety of international developments. The only practicable course in such circumstances is to form the best judgment possible regarding such problems, assume that such judgments are correct, and base the estimated levels of prices and costs on them.

Proposed Level of Normal Values Per Acre

In recent discussions in the Farm Credit Administration, new levels of normal prices received by farmers and prices paid by farmers equivalent to the indexes of 215 and 260 (1910-14 = 100), respectively, have been under consideration for use by land bank appraisers. Such levels or indexes, when compared with the levels of 130 and 155 for normal prices received and paid now used by appraisers, would represent increases of about 66 and 68 percent, respectively. The ratio between prices and costs would drop slightly from 83.9 to 82.7 (Appendix "M").

If adopted, the effect of the proposed new levels of normal prices and costs, however, should not be to raise that present Normal Agricultural Value level by similar percentages - that is, by 66 or 68 percent. For a considerable number of years here have been several influences operating to limit the rise in land values occuring during periods when farm commodity prices were rising. The effect of these influences may be observed in the attached chart. In the upper half of the chart, annual indexes of prices received by farmers are compared with annual indexes of farm land values per acre. It will be noted that during World War I farm land values did not rise as rapidly nor as high as prices received for farm commodities. Likewise, during the 1920's, farm land values per acre did not represent levels as high as farm commodity prices received, while in the period beginning with the mid-30's, the lag of farm real estate values after prices received is even more apparent.

This relationship between farm land values and farm commodity prices received is brought out more clearly in the lower half of the chart where the indexes of farm land values are expressed as percentage ratios of the indexes of prices received. It will be observed that there is a distinct downward trend in these ratios during the 45 years covered by the data. A trend line fitted to the yearly ratios reveals the downward tendency more clearly. Starting with 100 in 1910-14, this trend line declines gradually so that by 1954, the index of farm land values per acre is only about 65 percent of the index of farm commodity prices received.

As shown by the lower half of the chart, the trend line of the ratios indicates that as of 1954 the index of farm land values per acre had dropped to about 65 percent of the index of commodity prices received. If this same percentage ratio should be applied to the proposed normal level for commodity prices of 215, it would suggest that an appropriate level or index for farm land values per acre would be 65 percent of 215 or 140. This is the same as the index of farm land values as of March, 1946. On that basis, farm sales prices that prevailed during the first few months of 1946 might appropriately be used as an average guide to establishing normal agricultural values in the United States if normal prices of 215 and normal costs of 260 are used.

Another demand arises from the better standards of living being adopted by farm families. This is reflected in part from the balance sheets of agriculture, referred to above. During the same period, 1940 to 1953, the total physical amounts of household furnishings and equipment in farm homes in the United States increased 134 percent. These figures take on added significance when it is recalled that the number of farms declined by over 12 percent during that time. The use of greater amounts of farm income for improved family living is reflected also in data on cash expenditures for that purpose.

Another factor in this situation is the rising share of farm operating costs which consists of cash outlays. This has two effects which are important in the question under consideration. In the first place, it leaves a diminishing share of farm income available for purchase of land or capitalization into farm land value.

A second aspect is that with the higher shares of income required for cash operating expenses, farming becomes more vulnerable to declines in income with accompanying increases in the potential credit risk.

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PART IV - TAX ASSESSMENT PROCEDURES

CHAPTER XVI

ASSESSMENT PROCEDURES USED IN POLK COUNTY, IOWA

The constitution of the State of Iowa requires that all "real and personal property" and all "monies and credits," unless exempted, be assessed for taxation. The intention of the law is that each property owner shall have a proportionate share of the cost of Government, local, state and Federal. The Code of Iowa also says, "All property shall be valued at its actual market value." It further states, in arriving at said actual value, the assessor shall take into account (1) "its productive and earning capacity, if any - past, present and prospective; (2) "its market value, if any; and (3) "all other matters that affect the actual value of the property."

The assessment on Iowa properties years past had received much conflicting criticisms. Inequalities and weakness in assessment procedures resulted in bitterness among neighbors and impaired the spirit of cooperativeness in tax responsibilities and neighborliness. High producing farms had been under assessed and the poor farms, over assessed in the same community; in some instances lying side by side. This problem lead the assessment personnel to the equilization of farms, suburban properties, industrial properties and city properties. The task took several years to undertake and with the cooperation of the Soil Scientist and Economist of Iowa State College, the first major step in equalized farm valuation was perfected in 1953.

The procedure is workable and practical, as the basis are scientific knowledge of soils coupled with practical experience, capitalized income or "net return" and an adequate knowledge of geography of the area.

Factors Affecting Soil Productivity and Yields (Net Returns)

Corn is the United States major crop and Polk County is within the corn belt. The farm is not just a place to live but are plant producers of food and any farm land is worth what it will produce plus the home and location value.

A fundamental consideration in the appraisal of farm lands for assessment is the farm land's soil. Its use and productivity determines the operators' prosperity. The average production of all agricultural lands is the chief determinant of actual value which is compared with one property or another by assigning values to each. For a fair comparison, a typical management program should be assumed. Farm operations on the land occupied are typical operations, a farmer on the poorer land does not have money for machinery, livestock, fertilizer and seed. The difference in production between these two farms will be on the soil type.

In a municipality, climatic conditions and rainfall do not vary so much but the runoff (erosion) depends upon the grade of slope and the type of soil which vary in different municipalities. The steeper the grade, the greater the erosion and varies to a large extent in different soil types. Temperatures vary but little between uplands and lowlands within a municipality so its problem is negligible within a municipality.

It is a fact that one farm operator is better and works harder than another and the better operator should not be penalized, hence the productiveness of any piece of land should not be considered from the standpoint of best or worth operator but from a "typical" operator in the area. This method of comparing farms under typical farm operating conditions is adhered to the soil difference which was found to be the most reliable assessment than any other method.

The type of soil is the most important and influential factor in production differences. Management procedures and climatic conditions aid in influencing production, either modern or obsolete agricultural methods used, but the actual difference in two different tracts of land, both under typical operating conditions, are due to soil type difference, per cent of slope and degree of erosion. Every farmer knows the effect of slope on production and water absurption during a precipitation on sloping and level lands. The difference is due to rapid runoff and less for absurption on sloping lands, hence the degree of slope adversely affect production.

The detailed soil map has to be prepared in order to compare the productivity of two different farms effectively showing the soil type, slope and state of erosion. The maps can be drawn to scale on aerial photographs of flights made by the United States Department of Agriculture and the other details, by walking and testing the soils of the unit desired to be mapped. Experiments on soil productivity and the different expenses incurred on farm operations under typical management were carried for a period of years. These mapping units gave data on the producing ability of two neighboring farms within a section or a municipality.

The grades or productivity ratings of the different soil types are called "Corn Suitability Ratings" because the capacity to produce corn is the key to the overall land values in the midwest. Ten grades were established in the grading of soils, 1 for the best CSR (Corn Suitability Rating) and 10, the poorest. Each soil type is assigned a grade based on a study of the available county yield data and talking to farmers themselves about their crop yields on different soils. If the farm is subject to overflow and other features do not permit its best use, a downward adjustment is made. Values which are not shown on the soil map, such as location in relation to markets and roads; physical features, such as ditches and railroads rights-of-way; hazards as mentioned above should likewise be deducted or added accordingly.

Net Returns

Net return is governed by (1) "cost of production, (2) "price received from crops, (3) "present-day yields, and (4) "preservation of land resources for future yields." Net return is also dependent upon yields and serves the gap between the values of two different farms. For example, A's farm is better than B's because, even though they use the same management and production methods, A's corn makes 15 bushels per acre more than B's farm. The price they received per bushel was the same and A will have more money left (more net return) after deducting expenses of production.

Capitalizing Income or Net Returns

Ths U.S. present economy's bulwark largely depends on the family-size farms operated by efficient farmers. The size of the farm has never been questioned but the highest and best use for land utilization had been the basis of arguments, and the farmer as well as the business man are more interested on the net returns per year than the size of their business and/or farm.

Actual value is dependent on capitalized average annual net returns compared with interests on similar risks on which business men and farmers alike are working to achieve that end. A farm with typical management has possibilities if it has sufficient income year after year to meet all the farmers expenses and have little left to meet emergency needs. The farmer can effect a saving or control cost of production, but has little or no control of what he receives from his production.

Location Effect on Land Value

Location value is greatly influenced by the farms' ability to bring net returns and service to the operator. Distance to markets for buying and/or selling commodities; distance to community centers, including churches, educational institutions, etc., stores and entertainments all add value to properties.

In Des Moines City, the county seat of Polk County and the largest city and the state capitol, its markets enhance the values of all properties lying close to the city. Because of these factors, farms 1-5 miles around the perimeter of the city were added $5 per acre to the actual value, 5-10 miles, $3 per acre and 10-21 miles, $1 per acre to the actual value.

BASIC STEPS IN THE DEVELOPMENT OF ASSESSMENT PROCEDURES USED IN POLK COUNTY, IOWA, U.S.A.

1. Determine the scope and procedure one intends to follow.

2. Purchase the aerial photographs of the county.

3. Employ an Agronomist, or two if possible. One man will map in good land, good going and good weather a section per day. In bad going, perhaps only 260 acres per day.

4. Make a complete study of sales of the past 10 or 15 years and develop a sales index bringing all sales to a common normal level. Very definitely follow the suggestions of Dr. Wm. Murray of Iowa State College.

5. Make a study of sales in regard to location from a central market for a location factor.

6. Develop 2 or 3 typical rotations of crops for various locations or grades of soil for the project or county.

7. Develop a cost and capitalized analysis of the income on 5 or 6 different grades of farms to act as a starting point on a pricing schedule.

8. Compare your normal sales with this capitalized value to set

the bench marks or pricing curve. From this, develope a price per acre for certain graded 40-acre tracts.

9. Adopt a card system, the farm cards to show soil map of each 40 acres, showing grades and ratings for each soil type within each 40. Cards should show evaluation table and final value of land. Proper space should be provided for one or two sets of buildings, depending upon the size of the farm. The cards should show a drawing of the major building (the home), and the size, reconstruction costs, and depreciated values on all buildings. Such information and prices should be placed on the valuation report cards. The system of valuing buildings is explained in various manuals such as the Cleminshaw Manual.

10. Count all acres on the mapped and graded aerial photographs and place this information on the property card - the soil number, the slope and state of erosion, and the number of acres in each soil group.

11. If desirable, photostat the aerial soil maps and cut out and paste on the property card the described parcel.

12. Check the graded soils in each 40 acres against the number of acres in each soil group to arrive at a grade for each 40 acres.

13. Price each 40 acres according to your pricing schedule.

14. Add land and building values together.

15. Assessor to review in field and make necessary adjustments.

16. A study farmer-owner committees of chart for each township.

17. Second or final review by Assessor and Agronomist.

18. Second farmer-owner committee study and final setting of value.

19. Convene County Board of Review in an unofficial meeting for one or two weeks review of work and contemplated values.

20. The balance of the work is mathematical calculations, writing rolls and mailing.

CHAPTER XVII

PRINCIPLES AND PROCEDURES OF URBAN LAND VALUATION*

Land may be defined briefly as the solid part of the surface of the earth. This includes all natural resources. Generally, the supply of land is fixed by nature and is permanent. It cannot be physically reproduced as a structure is, nor does it depreciate materially. True, land can depreciate in value when the minerals necessary to good productivity have been depleted, and may become useless as farm land, though still visible. Further, land can increase in value through discovery of valuable minerals or oil in it, and it may depreciate after such substances have been exhausted.

The assessor is concerned with making correct and uniform valuations. Since no mechanical procedure has been evolved that will in itself accomplish this, any standardized system must be tempered with the judgment and background knowledge of the assessor, based on observation and intelligent valuation of the facts.

Factors Affecting Urban Land Valuation

1. Population and the community
2. Location
3. Physical features and topography
4. Zoning laws and restrictions

A brief explanation of these factors follows:

Population and the Community

In the early days of this nation, land was plentiful and cheap. As the population increased in various areas and effort was expended in putting it in usable condition, it began to be more valuable. As the supply in that area became smaller, the demand became greater. The vast building boom since World War II increased the value of land in many urban and suburban areas.

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*Excerpt from Chapter XIII of the manual for "Basic Principles of Urban Assessments" by Andrew S. Regis, Chief Deputy Assessor, Des Moises, Iowa.

The trend in population should be considered. The general prosperity of the community affects the value of the property there. It is believed that the community remains static.

Are business conditions good, fair, or poor? Is it an industrial community, insurance and business center, agricultural area, or a combination of any of these? Are the local government officials progressive and are public services and utilities adequate? Also, what is the type, character, and income level of the people in this particular neighborhood?

Location

In urban land, location and topography are the major factors, whereas in farm lands productivity is the important factor. The accessibility of a parcel of land to the activities of the community and the land's ability to provide services in the way of monetary returns, or satisfaction of other desires, greatly affect land values. If a parcel of land can provide the above, it then can be developed to its highest and best use.

The location factor has a definite bearing on whether or not certain properties are able to provide these desires and services. There must be adequate transportation facilities available to make land accessible to shopping area, parks, schools, churches, amusements, etc. This is especially true in residential area. Downtown commercial property values are influenced by their proximity to heavy pedestrian traffic, transportation, and parking areas for autos. Corner locations and alleys are more important in commercial areas than in residential area. A corner location gives a business frontage on two streets. The importance of an industrial site depends upon the available labor supply, public utilities, water supply, and railroad and trucking facilities, as well as transportation for its employees.

Other location factors are the availability of paving, sidewalks, sewer, water, gas, electricity, etc. A lot facing south is advantageous in colder climates. There are many location factors which can be unfavorable to value, especially in residential areas; such as proximity of cemeteries, packing plants, oil stations, funeral homes, etc. In arriving at an opinion of the value of a specific property, for the purpose of taxation, both favorable and unfavorable location factors must be observed and correlated.

Physical Features and Topography

Physical features of land are important in its development for highest and best use. Size, shape, width and street frontage, and depth are perhaps the primary factors. Plottage is a term which has much significance in determining value. It is applied to the situation where two or more parcels of land are assembled into one unit to meet specific needs. It applies also to the excess cost of assembling two or more parcels under a single ownership as compared to the cost of the individual parcels. The topography of land influences the value. Is the site level and suitable for building? Is it above or below grade, steep, hilly?. Is there ravine; is there proper drainage; is it filled land; has it been undermined, etc.? To arrive at uniform land values it is many times necessary to apply a deficiency factor in the form of depreciation.

Zoning and Restrictions

Zoning is defined by the National Association of Assessing Officers as:

> "The exercise of the police power to restrict land owners as to the use of their land and/or the type, size and location of structures to be erected thereon."

A sound zoning and planning policy are important to maintaining land values. For instance, a change in zoning regulations to permit rooming or apartment houses in a single-family dwelling area will have a detrimental influence on the values. This principle applies also where nuisances such as packing plants, sewage disposal plants, etc., are permitted.

Private restrictions usually found in deeds or new subdivision rulings will normally maintain or enhance value. Prior to the war in some areas where restrictions as to the cost of structures were imposed, vacant lots were plentiful because of limited market for them. At the time there were not enough people who could afford a $15,000 or $20,000 home. Restrictions are most valuable in keeping commercial properties out of residential neighborhoods. The determination of property rights also involves giving due consideration to assessments, right-of-way, and party-wall agreements.

There are many other factors affecting land value especially farmlands) that must be given just as careful consideration as those mentioned here.

Classification of Land

Generally, land can be classified according to (1) location and (2) use, as follows:

1. Location
    - a. Urban
    - b. Suburban
    - c. Rural
2. Use
    - a. Residential
    - b. Commercial
    - c. Industrial
    - d. Agricultural
    - e. Mining
    - f. Timber lands and Forest Reservations
    - g. Recreational
    - h. Private
    - i. Public Institutions

Methods Used in Appraisal of Land

"Urban Land Appraisal", published by the National Association of Assessing Officers should be available for reference and carefully studied in every assessing office. This book endorses two basic methods of land appraisal: the Sales and Income Methods. A third method is also included. This is expressed as "Derivative" and is dependent on appraisals being first developed by the two basic methods. The derivative method is based on comparison of similar land with land which has been appraised by the sales or income method or both.

Where the market is active and sales numerous, the determination of value for tax purposes is not too difficult. For assessment purposes the sales method is the most reliable, especially where the subject property has been sold recently and the sale meets the willing buyer, willing seller concept. The success of this approach is dependent upon the skill and care used in its application and requires the accumulation of data, such as offers to buy, offers to sell, etc., all of which must be carefully analyzed and evaluated.

The Income Method is used primarily by private appraisers. However, a knowledge of the procedures involved in this method is valuable to the assessor as it may be employed to assist him in sustaining his values. Also, where there are no sales, the value of the land by the land residual method of capitalization may be found. This is sometimes referred to as the Abstractive Method.

If the property value as a whole can be determined, the replacement cost of the improvements, less depreciation, may be computed and that value deducted from the whole or composite value, this leaving the value of the land. This to others may also be called an "Abstractive Method" for one meaning of abstractive is to "take away" or to "consider separately". A rule of thumb used by private appraisers and residential contractors is that the land should not exceed 20% of the total value.

Conclusion

Assessors in mass appraising perhaps use most frequently a system of comparing land of unknown value, where there are no sales, with land whose value has been previously determined by one of the known methods of appraisal. Like must be compared with like. Location, size, shape, frontage, depth, width, character of public improvements, topography, restrictions, etc., are considered and adjustments made from differences.

Many assessors in establishing land values form a citizens group, consisting of realtors, mortgage bankers, appraisers, property managers, and other citizens to check and assist in setting values, especially in the valuable commercial areas. Community and neighborhood meetings are held to give the taxpayers an opportunity to express their opinions.

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CHAPTER XVIII

CAPITALIZATION OR INCOME APPROACH*

The capitalization approach to value is based upon the theory that "a property is worth no more that it will earn", or that "value is the present worth of future benefits (income) arising from ownership". In other words, it is the amount that a (prudent) purchaser will pay for a property which yields a certain known income. Though this is one of the three yardsticks of appraising, it is not widely used by assessors in mass appraising. Every assessor should be familiar with the processes involved for he will find it useful as a check on other approaches and in problem appraisals, especially as to income producing properties.

The National Association of Assessing Officers defines this approach as:

> "The act of determining the present worth of anticipated income, especially when anticipated income is assumed to be equal to past income from the same source."

The American Institute of Real Estate Appraisers defines it as:

> "An appraisal technique in which the anticipated net income is processed to indicate the capital amount of the investment which produces the net income. The capital amount, called the capitalized value, is in effect, the sum of the anticipated annual rents less the loss of interest until the times of collection. The reliability of this technique is dependent upon, (1) the reasonableness of the estimate of the anticipated net annual incomes, (2) the duration of the net annual income, usually the economic life of the building, (3) the capitalization (discount rate), and (4) the method of conversion (income to capital)."

Processes Involved in Capitalization Approach

1. Future fair rental value

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*Excerpts from Chapter XII of the manual on "Basic Principles of Urban Assessments" by Andrew Regis, Chief Deputy Assessor, Des Moines, Iowa.

2. Operating expenses
3. Economic life of improvements
4. Proper capitalization rate
5. Method of converting income into capital value

Fair Rental Value

To find the net income of property, it is first necessary to determine the gross income, which in turn is based upon the rentals received or rental value of the property. Where actual income statements are available for the past three or four years and for the current year, the assessor's task becomes easier. However, these statements must be carefully analyzed and necessary adjustments made so that the final result is typical income for that type of property in the jurisdiction. He then projects this income into the future. To do so he must be familiar with local, state and national economic conditions. A study is made of the tenure and terms of leases. What vacancy and bad debt allowance, if any, is to be allowed against the possible gross income? Information concerning rentals of similar properties, together with a study of rental trends in the area, will help simplify the problem.

Operating Expenses

Operating expenses will vary with different types and uses of property. A fair average which is typical for the jurisdiction must be determined so that good management will not be penalized as against poor management. Whether the property is managed by the owner or someone else, the allowance of a management fee is proper. The amount of percentage depends upon what is prevalent in the community.

Actual income or expense statements are carefully scrutinized. It is not unusual to find listed as expenses, items which are capital improvements. Also some income-producing property owners submit statements to the assessor which have included therein interest paid on mortgages and even principal mortgage payments. In the capitalization approach it is assumed that the property is owned free and clear of all encumbrances Many assessors for the capitalization process reduce the operating costs of the following:

1. Taxes
2. Depreciation
3. Maintenance (includes utilities, etc., when furnished)
4. Insurance
5. Contingencies

A percentage is allowed for each, and the gross income multiplied by 100 is then divided by the capitalization percentage to arrive at the capital value.

Economic Life of Improvements

To determine proper depreciation allowance, the assessor estimates the remaining economic life of the buildings. This is easier said than done and depends again upon the experience and knowledge of the assessor. Advice and help is available to all who seek it. Assistance on this and other problems can be obtained from many persons, such as mortgage men, realtors, bankers, architects, contractors, building managers and operators, who have access to national figures through their various associations. Correlation of all advice and data and application of sound judgment will usually result in the right answer.

The assessor may decide in the capitalization process to allow a fixed percentage of depreciation based on the straight line method, or he may use the sinking fund, also called the redemption fund method of amortizing the property. This involves findings from available tables the amount of money the owner must invest in equal annual payments in a sinking fund at a fixed compound interest rate that will return the original cost at the end of the economic life of the building.

For example, assume the estimated remaining economic life of a building to be 40 years. The straight line method called for an annual depreciation of 2½%. According to sinking fund tables, a yearly amortization of approximately 1.33% of the total value of the building invested annually for 40 years at 3% compound interest will return the original cost. Use of the latter reduced rate will result in an increased value of the property by the capitalization process. In some properties, such as apartment buildings where furniture, stoves, and refrigirators, etc., are furnished, the assessor must also allow depreciation to recapture these asset items. There are other methods of application of depreciation known as annuity method, Inwood compound interest, etc. However, the purpose here is only to relate the more popular ones used by assessors.

Proper Capitalization Rate

Capitalization rate is defined by the National Association of Assessing Officers as: "The interest rate used in discounting anticipated income and/or expense." A change in this rate of 1% can materially increase or decrease the estimated value of property. For example, assume a property having a net income of $2,000 is capitalized at the following interest rates:

4%	indicates	a	value	of	$50,000
5%	"	"	"	"	40,000
6%	"	"	"	"	33,334
7%	"	"	"	"	28,571
8%	"	"	"	"	25,000

The rate can vary, according to different types and ages of property. Older properties usually involve a greater risk than new properties. The greater the risk, the higher the capitalization rate and lower the value result. Interest rates fluctuate as do property values in different sections of the country and the assessor assembles and studies proper data on the "going interest rates" for mortgage and other types of investments in the community. A prudent investor bears in mind that investment in real estate requires more personal time and effort than other types of investments; thus, only a fair return will encourage him to purchase real estate.

Naturally, there are instances where merchants and other types of business are forced to purchase properties at a premium to stay in business. Unquestionably the matter of the proper capitalization rate is one of the uncertainty and there is no "crystal ball" into which to gaze for the answer. Assessors may err in this procedure, yet because of the fact that assessments are subject to review by the assessor at some later date, or by a higher authority, such errors can be corrected. A good policy in all assessment problems is to give the benefit of the doubt to the taxpayer. Only by doing can one learn, and by actual application of the capitalization process, the assessor can learn how to apply his best judgment and opinion as to what rates are to be used.

Methods of Converting Income to Value

It will be noted that the National Association of Assessing Officers uses the words "anticipated income", whereas the American Institute of Real Estate Appraisers use the words "anticipated net income".

Many assessors due to the task of mass appraising prefer a system of capitalization by using the gross income only for the reason that it is easier to compute and also that good management will not be penalized.

The "Baltimore Plan" is one of which advocates this procedure. For office buildings, they use an overall capitalization rate of 18%. They modify this rate by adding 1/2% depreciation for older office buildings. The Maryland State Tax Commission further allows a 10% deduction for vacancies and other contingencies from the gross income before applying the capitalization formula. The formula is made up as follows:

Item	Rate
Heat and Light	.022
Janitors	.02
Elevators	.008
Taxes	.03
Administration	.005
General Expenses	.014
Depreciation	.02
Net Revenue (Interest)	.06
Total:	.13

You will note that an interest rate of 6% is allowed. An office building having a gross income of $180,000 would have a capitalized value under the Baltimore Plan of $1,000,000. For various types of apartment houses and stores, etc., they have adopted other formula. This system has been very successful in other jurisdictions. The proper total rate is determined by considerable study and investigation.

Others apply what is known as "gross rent multiple" formula. If a house rents for $100 per month or $1,200 per year, and comparable properties are found to sell for $12,000, then 10 times the yearly rental of $1,200 would indicate a value of $12,000. By the same rule a home renting for $1,080 per year would indicate a value of $10,800. A study must be made of various neighborhoods and types of properties to determine the proper ratio of sales to rental value. Some assessors apply a multiplier to the monthly rental. For example, a monthly rental of $100, times a multiplier of 120, would indicate a value of $12,000. Many of these are termed "rule of thumb" forms of capitalization but are quite useful depending upon the circumstances to which they are applied.

It is possible, as under the Baltimore Plan, to predetermine the total capitalization rate. For example, on a new rented home:

1.	Interest	5%
2.	Depreciation	2%
3.	Taxes	3%
4.	Expenditures, Insurance, etc.	2%
	Total capitalization rate of	12%

Thus a new home renting for $1,200 per year would indicate a value of (1,200 x 100 ÷12) = $10,000. The fallacy in this method is that the land is also considered to be worthless at the end of the economic life of the building, yet it can be used to advantage as a check on other approaches. It is wise to bear in mind that where taxes or expenses increase materially, by the same token the value of the property decreases. Assume: Gross Income $1,200 - Capitalization rate 12%, which includes 3% for taxes. If the tax rate increased from 30 to 40 mills, applicable to the 100% value, this would be an increase of 1% because of 40 mills is equivalent to 4%. Thus the total capitalization rate would be 13% and the indicated value of the same property, rentals remaining static, would be $9,23

It is unlikely that such an increase would be made in the tax rate in a single year, and if the assessor reduced the properties based solely upon this fact, such adjustments would be only for the purpose of keeping the taxes to be paid at the same level as before. Increased taxes are a certainty and must be absorbed as an added cost of doing business. Ordinarily where possible, rents would be increased; and the effect on larger properties would be greater.

There are three general methods used in converting income into capital value:

1. Building Residual
2. Land Residual
3. Property Residual

The Building Residual Method is used where land value has been estimated by the sales or comparison approach, and it is desired to find the building value.

The Land Residual Method is just the reverse as in this method the building value has been estimated by cost or market approach and the land value is the unknown quantity.

In the Property Residual Method the value of the entire property as a whole is determined. There is no division of land and building value other than that the assessor must estimate the value of the land at the end of the economic life of the improvements. At the time the land is considered as vacant and the value is discounted to its present day worth.

The various mechanics involved will be shown by examples using both net income and gross income as a basis.

Net Income

It is assumed that the net income is $10,000 before taxes and depreciation. The amount of taxes and depreciation to be allowed depends upon the value of the property. Thus, these two items are treated the same as the interest factor and are stated percentagewise in the mathematical process. As to tax percentage, if the millage rate is 50 mills is based on 60% of the 100% value, the tax factor would be 3%. This factor depends upon the value base used in local jurisdiction. It is further assumed that the estimated remaining life of the building is 40 years.

Building Residual Method

1. Using straight-line depreciation:

Land value assumed to be $30,000		
Net income (before taxes and depreciation)		$10,000
Land entitled to:		
Interest	5%	
Taxes	3%	
	8% x $30,000	2,400
Net income to building		$ 7,600
Building entitled to:		
Interest	6%	
Taxes	3%	
Depreciation	2.5% (40 yrs.)	
	11.5%	
Capitalized building value ($7,600 x 100 ÷ 11.5%) =		$66,087
Land value		30,000
Total value of property		$96,087

2. Using sinking fund depreciation:

(Sinking fund rate for 40 years @ 3%)

Net income to building (as above)		$ 7,600
Building entitled to:		
Interest	6%	
Taxes	3%	
Amortization	1.33% (sinking fund rate 40 years @ 3%)	
	10.33%	
Capitalized building value ($7,600 x 100 ÷ 10.33) =		$ 73,572
Land value (same)		30,000
Total value of property		$103,572

Land Residual Method

1. Straight line depreciation used:

Net income (before taxes and depreciation)		$ 10,000
Building value (as in Building Residual)		66,087
Building entitled to:		
Interest	6%	
Taxes	3%	
Depreciation	2.5% (40 years)	
	11.5% x 66,087	7,600
Net income attributable to land		$2,400
Land entitled to:		
Interest	5%	
Taxes	3%	
	8%	
Capitalized land value ($2,400 x 100 ÷ 8) =		$ 30,000
Building value		66,087
Total value of property		$ 96,087

2. Sinking fund depreciation used:

Net income (before taxes and depreciation)		$ 10,000
Building value (as in Building Residual)		73,572
Building entitled to:		
Interest	6%	
Taxes	3%	
Depreciation	1.33% (sinking fund 40 years @ 3%)	
	10.33% x $73,572 =	7,600
Net income attributable to land		$ 2,400
Land entitled to:		
Interest	5%	
Taxes	3%	
	8%	
Capitalized value of land ($2,400 x 100 ÷ 8%) =		$ 30,000
Building value		73,572
Total value of property		$103,572

Property Residual Method

1. Straight line depreciation used:

Net income (before taxes and depreciation)		$ 10,000
Property is entitled to:		
Interest	6%	
Taxes	3%	
Depreciation	2.5% (40 years)	
	11.5%	
Capitalized value of property: ($10,000 x 100 ÷ 11.5%)		$ 86,957
Add the present worth of the land value 40 years hence @ 5% interest ($30,000 x .14204) =		4,261
Total value of property		$ 91,218

2. Sinking fund depreciation used:

Net income (before taxes and depreciation)		$ 10,000
Property is entitled to:		
Interest	6%	
Taxes	3%	
Depreciation	1.33% (40 years sinking fund @ 3%)	
	10.33%	
Capitalized value of property: ($10,000 x 100 ÷ 10.33%)		$ 96,805
Add the present worth of the land value 40 years hence @ 5% interest ($30,000 x .14204)		4,261
Total value of property		$101,066

Where the same facts were used for Building and Land Residual examples, the same values were obtained. The only difference being that by using the straight line depreciation, a value of $96,087 was obtained as against $103,572 by using the sinking fund depreciation. The Property Residual Method resulted in values of $91,218 and $101,066. The total average of the four values $97,786. The Property Residual Method involves estimating the land value at the end of 40 years. Again, this would be quite a task since only the present worth of that value is used and the assessor's forecast, if reasonable, will not greatly affect the value of the property as a whole.

Gross Income

More popular with assessors are the methods of capitalization which are similar to the "Baltimore Plan" previously explained. As a further example of Building Residual Method, and actual apartment is used. The property is four years old; it is two-story and finished basement area; frame with brick veneer; contains 24 apartments; no elevators; the owner furnishes stove, refrigerators, and heat and water.

Building Residual Method

Gross Income		$ 27,400
Less vacancy and bad debt allowance	5%	
Management fee	5%	
	10%	2,740
Adjustment Gross Income		$ 24,660
Flat Expense Allowances:		
Custodian, Utilities, Supplies 15,176 sq. ft. of floor area @ 20¢	$3,035	
Equipment, repairs and replacement	600	3,635
Net Income to Land and Buildings		$ 21,225
Buildings have a carrying charge of 14.15%		
Capitalized value of building ($19,225 x 100 ÷ 14.15) =		135,866
Land Value		20,000
Total value of property		$155,866

Land Residual Method

Here is an example of a small one-story and basement concrete block store building. It has a frontage of 20 feet and only a single tenant. The building is assumed to have depreciated 35%. Rent is $150 a month.

Gross Income		$18,000
Less vacancy	3%	
Management	5%	
	8% x 1,800 =	144
Adjusted Gross Income		$ 1,656
Building previously valued @ $7,500		
Carrying charge 16.84 x $7,500 = (35% depreciated building)		1,263
Net to Land		$ 393

Land entitled to:	
Interest	5%
Taxes	4%
	9%

Capitalized value of land ($393 x 100 ÷ 9%) =	$ 4,367
Building Value	7,500
Total value of property	$ 11,867

Conclusion

The foregoing methods and rates are offered as a suggestion for a more or less basic pattern. Individual preference, of course, will govern whether or not they are used. In determining the assessment of income-producing property, a valuable guide to the proper gross capitalization rates can be had by securing and analyzing various operation statements.

An open and inquiring mind is necessary to the successful assessor. There are many ways of expanding knowledge of the various methods of using the Capitalization Approach. It is important to keep in mind that this is only one of the approaches to value. Samuel Johnson said: "Knowledge is of two kinds; we know a subject ourselves or we know where we can find information upon it."

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CHAPTER XIX

COMPARISON APPROACH TO VALUE*

This is defined by the American Institute of Real Estate Appraisers as "an appraisal technique in which the market value estimate is predicated upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise) and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market." It is a process of correlation and analysis of similar recently sold properties. The reliability of this technique is dependent upon:

1. The degree of comparability of each property with the property under appraisement.
2. The time of the sale.
3. The verification of the sale data.
4. The absence of unusual conditions affecting the sale.

If the real estate market is active and sales plentiful, this approach will yield the best evidence of market value and can be used to find the value of comparable or nearly comparable properties on which such information is not available. The use of this approach in the determination of value is dependent upon record-keeping in the office. This involves the accumulation of all sales data and records of sales, for ready reference and analysis. Sales of some types of property occur infrequently while with other types the market is very active. Both new and old homes have been and are still enjoying an active market, and such sales and sales data are a boon to the assessor in his work. However, sales of large commercial and income-producing properties are few and far between, and here other methods of appraisal must be employed.

Sales Data

Sales data can be secured from sales listings, offers to buy, and actual sales or transfers. A certain amount of resourcefulness is necessary in gathering together such material. In jurisdictions where this is possible, membership in the local real estate board and subscription to the Multiple Listing Exchange will furnish complete listing of all properties offered for sale. These listings usually fix the maximum market prices of such properties. Sales advertised in newspapers and deed, contract, and mortgage records furnish additional information. Revenue stamps on deeds give an indication of the sales price paid. After a sale is completed, information can be obtained from the real estate agent or the seller.

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*Excerpts from Chapter IX of the manual "Basic Principles of Urban Assessments" by Andrew S. Regis, Chief Deputy Assessor, Des Moines, Iowa.

Information regarding sales may be obtained from neighbors - even the purchaser themselves. Such records on the property data card will prove very helpful. And, a separate record can be utilized in ratio studies, court cases, etc., if necessary.

Even after a careful investigation, it is difficult to learn all the conditions involved in a sale. Needless to say, any sales that do not appear to be valid should be rejected. Such sales would include those between relatives or interrelated corporations; tax sales; foreclosures; condemnations; and those for special purposes, such as oil station sites, etc. Numerous comparison regarding physical aspects of the property are necessary, such as lot size, shape, and topography. The building must be compared as to size, architecture, construction, livability and condition. Further, the desirability of the neighborhood and the style of homes and type of people must be considered.

Generally, no two properties can be at the same location. However, it is possible for two similar houses to depreciate at different rates due to differences in maintenance. Adjustment for such differences is made possible through the use of sales information of nearly comparable properties.

Assessment-Sales Ratios

The following is a short discourse by William G. Murray, Head, Department of Economics and Sociology, Iowa State College, Ames, Iowa:

> "Assessment-sale ratios are very useful tools in judging the degree of uniformity existing among the assessments in a given district, but the value of this procedure depends upon knowledge and skill in its calculation and use. The ratio is obtained by its calculation and use. The ratio is obtained by dividing the assessment by the sale price of the property. For example, if

a residential property (house and lot) sells for $18,000 and the assessment on the property is $11,000, the ratio is 61%.

"A large number of sales, not just one or two, should be used in establishing a judgment about assessment uniformity. It is common, for example, for one sale to be either somewhat above or below the going market; similarly it is possible that a single property assessment might be out of line. On the other hand, when a large group of cases are taken into consideration, the results are likely to be reliable. A good test is to continue taking additional cases until the additions do not have any appreciable effect in changing the overall average.

"The extent to which the individual assessment-sale ratios of cluster around the average indicates the degree of uniformity in the assessments. If these individual ratios cluster around the average, this is good evidence that the assessments are uniform as they should be. On the other hand, if the ratios do not concentrate around the average but vary widely on each side of the average, this is evidence that uniformity is lacking and a reassessment is needed.

"The following table gives an example of assessment-sale ratio for two items in the same county in a Midwest state:

Ratio Percentages		Number of Sales Area A	Number of Sales Area B
0	09%	0	0
10	19	1	0
20	29	3	0
30	39	5	3
40	49	8	17
50	59	8	19
60	69	11	13
70	79	6	3
80	89	6	4
90	99	5	0
Over 100		10	3
Total Cases		63	62

Average (Median)	64%	54%
Coefficient of Dispersion	32%	16%

"In Area A the ratios range widely about the average of 64%, indicating a relatively poor assessment. In Area B on the other hand there is a concentration of the ratios around the average of 54%. The coefficient of dispersion, which measures the degree of cluster or concentration around the average, shows the difference between Area A and Area B as the difference between 32% and 16%. The coefficient of dispersion in this instance is computed by taking one-half of the difference between the first and third quartiles and expressing this figure as a percentage of the median. In the case of Area A the first quartile is 48% and the third is 89%; one-half of the difference is 20.5 which is 32% of the median average of 64.

"A mistake commonly made is to put too much reliance on the accuracy of individual assessment-sale ratios. In any one sale, for example, the sale price may be more out of line than the assessment. For this reason there should be some scatter of the ratios around the average, even though a new perfect set of assessments exist.

"But we do know that in most areas more out-of-line variation exist in assessments than in sale prices; consequently, it is reasonable to use sale prices as the base and measure assessments against them to determine how far the assessments are out of line. Finally, it should always be emphasized that one of a few assessment-sale ratios have little if any meaning; only a large group of sales can give a satisfactory, meaningful answer."

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CHAPTER XX

COST APPROACH*

Most authorities believe this method is best applied to mass appraising of structures. It is not applicable to land, of course, which does not usually have a cost of production.

Definition

The American Institute of Real Estate Appraisers use the term "Appraisal by Summation" in their Terminology Handbook and define it as follows:

> "An appraisal technique in which the estimate is (1) the value of the land considered as vacant and available for improvement, and addition to (2) the depreciated replacement cost of the improvements. The sum is said to be the "Depreciated Replacement Cost" of the property and not "Depreciated Value." The worth of this method lies in the fact that cost now tends to set the ceiling of value."

They also define "Cost of Replacement" as:

> "First, the cost that would be incurred in acquiring an equally desirable substitute property. Second, the cost of reproduction now, on the basis of current prices, of a property having a utility equivalent to the one under appraisement. It may or may not be the cost of a replica property. Third, the cost of replacing unit parts of a structure to maintain it in its highest economic operating condition."

and "Cost of Reproduction" as:

> "The cost of reproducing a new replica property on the basis of current prices with the same or closely similar materials."

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*Excerpts from Chapter X of the manual "Basic Principles of Urban Assessments" by Andrew S. Regis, Chief Deputy Assessor, Des Moines, Iowa.

The National Association of Assessing Officers in their Terminology Book defines "Reproduction Cost" as follows:

> "The cost of constructing a new property reasonably identical with the given property except for the absence of physical depreciation, computed on the basis of prevailing prices and on the assumption of normal competency and normal conditions. Synonymous with "Reproduction Cost New."

No definition of "Replacement Cost" is shown, but the reader is referred to the "Reproduction Cost" definition. In other words, replacement cost applies to a building of equivalent size, shape, and utility, while reproduction cost applies to an identical building. These two definitions are emphasized here because private appraisers and assessors use the terms "Replacement" and "Reproduction" synonymously in error. Many appraisal books use the terms interchangeably. However, only in rare instances (such as in restoring historical buildings) would a structure be reproduced exactly

Replacement cost is now recommended as the preferred cost approach to value. Briefly, it is the current cost of replacing a similar and comparable structure of equivalent utility; that is, a structure with a comparable shelter, amenities and services, and which will produce equal net income. There would be involved the replacement of out-of-date features for more modern ones. Materials, though similar, would not necessarily be the same. Replacement cost could be the same as Reproduction Cost, but this is not always true.

Again, even though many appraisal books and manuals use the term "Reproduction Cost", it must be remembered that it is not intended that an exact copy of the structure will be reproduced. Since the terms "Reproduction" and "Replacement" costs are used interchangeably without regard to their exact meanings, it is very important to keep in mind just what the distinction is between them and that they have two different meanings.

The proper use of the cost approach involves an understanding of the "theory of substitution"; that is, that no property is worth more than the replacement cost of a similar property with equal utility and equally desirable location. Naturally, no one would pay more for a property than the cost of constructing it, provided the time element did not enter into the consideration.

The Cost Approach Involves -

1. The value of an equally desirable parcel of land considered as vacant (determined usually by comparison with other land values in community).
2. Estimating the cost of reproduction or replacement of the improvements.
3. Estimating the depreciation to be deducted from the cost.
4. Adding together the land value and depreciated replacement cost of improvements, which total gives an indication of total value.

To correctly estimate replacement or reproduction cost, data must be available and new methods of construction. These data may be obtained from contractors and architects, and from books, manuals, etc.

Methods of Estimating Replacement Costs

Replacement Costs may be estimated by use of the following methods:

1. Square foot
2. Cubic foot
3. In place unit cost
4. Quantitative cost
5. Historical

The Square Foot and Cubic Foot Methods are those most readily found in cost manuals. The square foot method (length times width) is said to be easier because it is more quickly figured and is used especially in dwellings. The square foot measurements involved are known as the ground floor area. That is the area enclosed by the exterior walls of the main structure. For structures higher than one story, the square foot cost is increased. Porches, additions, etc., are measured and priced separately. In some cases the square foot area of each story is figured and a unit cost applied separately to each to arrive at the estimated replacement cost.

Cubic Foot Method (length times width times height) involves more computations, thus there is more opportunity for error and there are different methods of arriving at cubical content. The system as adopted by the American Institute of Architects is widely used and they define it as follows:

> "The cubic content of a building is the actual space within the outer surfaces of the outside or inclosing walls and contained between the outer surfaces of the roof and the finished surface of the lowest basement or cellar floor."

Some appraisers may begin six or more inches below basement floor. There are also differences in cubing, porches, courts, dormers, etc. It is true that fault can be found with either system; size and shape of buildings have much to do with their cost; oblong and square buildings are cheaper to build than irregular sized ones. As the size of a building increases, the unit cost decreases.

In place unit cost method involves more detail, but is popular among many assessors, especially in appraising commercial and industrial structures. It is also referred to as plane method, or vertical and horizontal method.

Installed unit costs, including labor and materials, overhead expense, etc., are computed for all vertical and horizontal planes of the structure. Vertical plane covers footings, trench excavation, foundation walls, store fronts, including paint and plaster, windows, doors, store fronts, etc. Horizontal plane includes excavation and backfills, ceilings and floors, all supports, roof construction, etc. Heat, lighting, plumbing, and other miscellaneous items are also estimated and added.

These unit costs are figured on a basis of linear feet, square feet, or cubic feet, whichever is proper for the particular unit of construction. For example, unit square foot cost of a common brick wall installed, including labor, materials, contractor's profit, architect's fees, etc., is $1.75 per square foot. The square foot area of the walls times $1.75 equals the total wall cost. The same is done for all other construction components. This system though similar to Quantity Survey Method is not as detailed and does not require a breakdown of actual quantities required, though skill and knowledge are necessary to use.

Quantitative Method, also called Quantity Survey, is that system used primarily by contractors and architects. Here a complete breakdown of labor hours, quantity and quality of materials to be used, overhead costs, insurance, and anything and everything involving the construction is estimated in detail. Few, if any assessors use this system except in important problem appraisals.

Historical Cost Method means the actual cost at the time the structure was built. It is used frequently, especially as a check on the unit costs on a particular structure. The original cost must be known and by use of construction costs indices, or conversion factors, it can be projected to a current cost. Building cost indices are published by various institutions and appraisal companies. They are especially valuable where much indices are available for your own jurisdiction. All historical cost data should be obtained where possible and recorded on the individual assessment card.

Many states and assessment jurisdictions also publish cost manuals which have reliable costs that are valuable to an assessor. In fact, all states should publish a cost manual and keep it up to date so that all assessors throughout the estate can use the same yardstick.

Whatever system may be used in the Cost Approach, the important thing is that the assessor and his staff be properly trained in its application and use.

Depreciation is a phase of appraising by the Cost Approach Method which is a subject of its own.

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CHAPTER XXI

DEPRECIATION*

Depreciation is a controlling factor in determining correct valuations. It demands careful analysis and intelligent handling. The assessor is primarily interested in depreciation as it affects the assessment process. The principal types of depreciation are:

1. Physical
2. Functional or Obsolescence
3. Economic

Depreciation is defined by the National Association of Assessing Officers as:

> "First, any decrease in value of property other than that arising from depletion of wasting asset (preferred). Second, any decrease in value of physical property, other than depletion, which arises from a lowered physical condition or a shortened physical life span."

Obsolescence is defined as:

> "A decrease in the value of a property occasioned solely by shifts in demand from properties of this type to other types of property and/or to personal services."

Economic depreciation, though a part of obsolescence, is defined as:

> "Depreciation due either (a) to an increase in supply of the property under consideration or (b) to a reduction in monetary demand for properties of the type under consideration unaccompanied by shifts in demand from such properties to other properties and/or personal services (preferred).

The American Institute of Real Estate Appraisers defined depreciation as:

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*Excerpts from Chapter XI of the manual for "Basic Principles of Urban Assessments" by Andres S. Regis, Chief Deputy Assessor, Des Moines, Iowa.

> "A loss in capital value. An effect caused by deterioration, or obsolescence, or both. Deterioration is evidence by wear and tear, decay, dry, rot, cracks, encrustations, structural defects, etc. Obsolescence is divisible into two parts, functional or economic. Functional obsolescence may be due to: Poor plan, functional inadequacy due to size, style, age or otherwise. It is evidenced by conditions within the property. Economic obsolescence is caused by changes external to the property such as neighborhood infiltrations of inharmonious people or property uses, legislation, etc."

For simplification depreciation may be defined as a loss value from any cause except depletion. Physical depreciation is due to decay, wear and tear, and action of the elements. Functional obsolescence is evidenced by internal conditions and economic obsolencence by external conditions. If carefully read, the quoted definitions are self-explanatory.

Depreciation as used by accountants is not to be confused with its use by assessors. The accountant is chiefly concerned with retirement and recapturing the original cost of capital asset at amounts which are acceptable for income tax purposes and to the particular business. Here the rate of depreciation is usually greater than that allowed by an assessor. No doubt you have encountered property where the book values are very low, yet the property was still in good condition and productive. Ordinarily, for assessment purposes, little or no consideration can be given to book depreciation percentages.

In the assessment of property for taxation, depreciation is the difference between replacement cost, new, and value. It is difficult, if not impossible, to formulate rules which will accurately measure depreciation. Undoubtedly you have heard the axiom: "More buildings are torn down than fall down." A well-maintained old building can show less depreciation than a more recently constructed one.

"Observed depreciation" is often employed in the assessing process. This is an estimate of the percentage of depreciation to be allowed made by actual inspection of the property. It is especially valuable in commercial and industrial properties, but its successful application is dependent on the experience and skill of the assessor.

In attempting to achieve equitable property assessments, most jurisdictions use depreciation curves and tables which are usually based on averages and experience. One procedure is the straight line method, i.e., writing off the cost of property over its estimated economic life by a fixed equal annual percentage. Also in use is the Diminishing Method or the Declining Balance Method in which the property is written off over its estimated economic life by means of a fixed percentage which is subtracted annually from the cost of the property and the rate applied only to the resulting balances. When this method is used the largest amount of depreciation is allowed the first and earlier years. In many tables the two methods are combined.

Still other tables show only the remaining value of the property stated percentagewise. Such tables should reflect whether the building is good, fair, or in poor condition. Different schedules should be made reflecting the various types of building construction, such as low cost, fair, good grade, or fireproof. The fact that some competent parts of a structure depreciate faster than others is well known. Roofs, heating systems, water pipes and fixtures depreciate more rapidly than the foundation, framing or masonry work. Assessors in most jurisdictions limit depreciation from 70% to 80% where property is still usable.

Careful attention must be paid to improvements, modernization, and repairs in old structures. Such changes should be noted on the assessment cards as they increase the life expectancy of the building and the depreciation must be carefully analyzed. Some call this "obtaining the effective age" of the property.

A procedure for finding the effective age of a building which has been modernized is to multiply the actual age by the cost of modernization and divide this product by the replacement cost. The answer is deducted from the actual age. For example, a 30-year building has been remodeled and altered at a cost of $6,000. The replacement cost was $30,000. The effective age would be determined as follows:

30 x $6,000 = $180,000 ÷ $30,000 = 6 years
30 yrs. minus 6 yrs. = 24 yrs. the effective age

The above is based on the theory that the actual age is reduced in the same ratio that the modernization cost bears to the replacement cost. For example:

$6,000 is 20% of 30,000
20% of 30 yrs. is 6 yrs.
30 yrs. minus 6 yrs. = 24 yrs. effective age

Where a building was constructed at two different periods, a method used to determine its effective age follows.

Assume a 5-story building where first 3 stories were built in 1940 and 2 additional stories were constructed in 1950. The total area of the building is 60,000 square feet. The 3-story section built in 1940 contains 40,000 square feet, or two-thirds of the total area, and the 2-story section constructed in 1950 contains 30,000 square feet, or one-third of the total area. The computations are as follows:

$$2/3 \times 1940 = \frac{3880}{3}$$

$$1/3 \times 1950 = \frac{1950}{3}$$

$$\frac{3880}{3} + \frac{1950}{3} = \frac{5830}{3} \text{ or } 1943$$

The effective age of the whole structure is determined by subtracting the effective year, 1943, from the year in which the apraisal is to be made.

Another example used by the Commonwealth of Kentucky is to estimate the percentage of the structure which has been replaced or modernized, and take that percentage at the number of years, from the date of remodeling and the balance at the number of years from the original date; in other words, a weighted average of the years. For example, a building with an age of 40 years was 30% remodeled 10 years ago:

30% at 10 years = 300
70% at 40 years = 2,800

Total 3,100

Divided by 100 = 31 years effective age

These are just three examples used by some assessors. Others firmly believe that in such cases the properties should be completely revalued, yet the proper depreciation to be allowed must still be determined. It can be seen by this short discourse that no table of depreciation can be strictly adhered to, but again, the assessor's experience and judgment must prevail.

Methods of applying depreciation vary. Some apply the physical depreciation factor directly to the estimated replacement cost and then apply obsolescence, or functional depreciation (which covers numerous things) to the remaining physical value. This sometimes has the effect of impressing the property owner that he has received considerable depreciation.

In actual practice assume a building 20 years old, estimated cost to be $20,000, good grade construction, in good condition. The physical depreciation is estimated at 25%, leaving a physical value of $15,000. Due to poor design, style and neighborhood factors, it is given an additional allowance and functional depreciation of 20%, which is applied to the value after physical depreciation, thus leaving a net estimated value of $12,000. Actually the total depreciation allowed amounts to only 40% rather 45%, as 60% of $20,000 equals $12,000.

Other methods of depreciation are shown as Sinking Fund, Unit of Production, Annuity Method, etc. Sinking fund and annuity methods involving use of present worth, and sinking fund tables are used primarily in income approach to value. As stated previously, the subject of the various types of depreciation is a large one, and a library of appraisal books to which the assessor can readily refer for information and methods involving their use and application is not only helpful but essential.

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CHAPTER XXII

LOCAL USE OF ASSESSMENT-SALE RATIOS*

Assessors are not making enough use of assessment-sale ratios. When qualitative procedures are followed in obtaining and analyzing these ratios, they can serve as an important factor in an improved local and state assessment system. In carrying out this qualitative method of assessment-sale ratio analysis, the cooperation of the state tax commission, the research agencies of the state colleges and universities, and the local assessors is essential. These ratios have limitations, however - more limitations than some state legislatures and state tax commissions apparently realize. If these limitations are recognized, a slow but progressive attack can be made on poor assessments with the aid of ratios.

More Use by Local Assessors

Most of the ratio analysis at the present time is being conducted by state tax agencies whereas the local assessors should be the first ones to make extensive use of this tool. It is axiomatic that tax equalization should begin with the local district. When this internal equalization has been obtained, it is possible to complete the task by equalizing the districts of counties in a state, a process which we will call external equalization. It is true that many states carry out various degrees of this external equalization between districts, but in doing so they do not correct the inequities which may exist between individual properties within a district. Consequently, if the assessor, as the result of some assistance, uses ratios to equalize assessments within his district, an important step will have been taken toward improved assessment procedures.

The first task is to provide assessors with a simple explanation of how these ratios can be used to equalize assessments. The explanation should point out the limitations as well as the advantages of the assessment-sale ratio because considerable confusion and error has been caused by over-selling the used of these ratios.

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*Reprint from the Proceedings of the forty-fifth National Tax Conference held at Toronto, Canada, September 9-12, 1952 by Dr. William G. Murray.

The Ratio as a Local Equalization Device

A search for standards or bench marks to use in comparing one assessment with another usually ends up with two possibilities - sales records and appraisals. Appraisals can be used, but they are subject to the criticism that they are subjective judgments and consequently open to challenge by those who disagree with the appraiser. In court, for example, it is frequent to get different appraised values for the same property. Furthermore, appraisals of a detailed nature are expensive. But even with these objections, appraisals do provide one tool which can be used in equalization and, in fact, the only tool where sales are not available. Where sales are available, they are preferred to appraisals because they are objective and in addition are obtained with little expense.

Local Ratio Example

The best explanation for the assessor is an example of the use of sales ratios in an equalization program. The example will be made up of the following principal steps:

1. deciding which kinds of sales to include
2. deciding what items of information to obtain
3. deciding on the sample size
4. gathering the data
5. verifying the sale price
6. computing the ratios
7. analyzing the results.

Of these steps, the most difficult are likely to be setting the size of the sample, verifying the sale price, and analyzing the results. In deciding on the sample, the assistance of the research agencies at the state colleges and universities should be obtained. Once the sampling problem has been worked out, little difficulty should be experienced in carrying on ratio studies in succeeding years. The sample problem will be of importance in urban residential areas for the most part because of the large number of sales in a relatively compact area. In rural areas, however, and in commercial and industrial areas, too, there are usually so few sales in the assessment district that all sales are used rather than a sample.

Verification of Sales Prices

Verification of the sale price, a step unfortunately often omitted, is of strategic importance if the assessor is going to use the ratio. Sales which appear bona fide on the books may tur out to be unusable on checking with the buyer, seller, broker, or someone else in a position to know the inside details of the tran action.

One of the common reasons for throwing out a sale is the ela ing of a long period between the date of the sale agreement was m and the date of the deed. This is especially important during a period in which sales prices are rising or falling. If prices ar rising, a lag between agreements and deeds will make some ratios much higher than they should be.

Verification of sales will also identify sales between relatives when the names are not the same and sales which involve additional items not ordinarily included in the real estate assessment such as growing crops and house furnishings.

Ratio Analysis

The most important step is, of course, the analysis. When th individual ratios have been computed, they should be averaged and then sorted into groups to show the amount of variation around the average. The use of two assessment districts, one with a wide variation and the other with a narrow one, is desirable. The follo ing frequency distribution of 1949-1950 assessment-sale ratios fo farms in two Iowa counties provides an example:

Ratio (In Percent)	Number of farm sales	
	Allamakee County	Story County
0 - 9	-	-
10 - 19	2	2
20 - 29	7	74
30 - 39	28	58
40 - 49	25	5
50 - 59	24	1
60 - 69	11	-
70 - 79	2	-
80 - 89	3	-
Over 89	5	66
Average (median)	45	29.5

Different classes of property should be analyzed separately and later consolidated in over-all figures. Farm, residential, commercial, and industrial properties should be studied to determine what relationships are peculiar to each of these types. Residential property for example, can be further analyzed by age, by sub-district within the city, and by value groups. Vacant lots can be handled in a separate classification. An analysis of ratios by age of residence in Ames, Iowa gave the assessor, Mr. Mendon, information which he found helpful. It showed that the ratios on sales of new homes was made more uniform than those on sales of the older properties. As a consequence he plans to put more effort on the assessment of the older properties in the 1953 reappraisal.

Comparison of the ratios for different value groups usually reveals over-assessment of the poorer and under-assessment of the better properties. When the assessor has a part in the collection of the sales data and in the analysis, he is likely to have more confidence in the results than if the study is made by some outside agency. More important, he will probably be inclined to do something about the inequity if he has had a hand in the project.

The following comparison of 1949-1950 assessment-sale ratios by value groups in Allamakee and Story Counties, Iowa illustrates the tendency to over-assessed poor properties:

Sale Price Per Acre Groups	Average Assessment-Sale Ratio (In Percent)	
	Allamakee County	Story County
Highest one-fourth	37	28
Second one-fourth	42	28
Third one-fourth	52	31
Lowest one-fourth	66	32

In preparing this tabulation, farms were ranked and grouped according to sale price per acre. In Allamakee County, the average assessment-sale ratio for the eleven farms with the highest sale price per acre was 37 percent as compared with a 66 percent average ratio for the eleven farms with the lowest sale price per acre. In Story County, the range was from 28 to 32 percent. Story County not only has less variation about the average but also less over- and under-assessment. It is worth noting that Story County was completely reassessed in 1949 while Allamakee County is now in the process of a detailed reassessment in which air photographs, soil survey data, and assessment-sale ratio analysis are being used.

Qualitative Method

Most ratio studies, especially those conducted by state tax agencies, are mainly for the purpose of getting district averages, like the average of 45 percent for Allamakee County and 29.5 percent for Story County. As a consequence, those in charge are not in a position to request or to allocate the additional funds necessary to make the detailed or qualitative type of study which has been outlined. If the assessors are brought into the picture, however, there is no reason why the state and the local tax units could not join forces in financing the ratio project. If the interest of the assessors is obtained, the state agencies will not only get the equalization which is needed and may be able to assist the assessor in a program to bring about this needed local equalization. It is obvious, for example, that considerable equalization is needed between different farms in Allamakee County before an over-all state equalization adjustment is made for all properties in this county.

Ratio Limitations

Difficulties have arisen when too much emphasis and reliance have been placed on assessment-sale ratios. Some individuals have used them as if they represented absolute accuracy. Some state agencies have endeavored to use them as coefficients to raise average assessments to market value.

An assessment-sale ratio is no more reliable than the data out of which it is computed. We know that sales as well as assessments are not perfect. Two similar properties may sell for different amounts in the same month because of a slight difference in the knowledge and the bargaining position of the parties to the transactions. Although they are both *bona fide* sales, the buyers and sellers may arrive at different prices. On account of this variation in sale price, a perfect assessment pattern would still show variation in ratios around the average, representing this lack of agreement among buyers and sellers. In fact, in some districts where an extra fine assessment has been made, ratios can be used to measure this lack of agreement among buyers and sellers. In one community, the real estate brokers use assessments as a reliable estimate of sale value.

Those who put too much emphasis on ratios forget that the ratios represent only those properties which have been sold. They are assuming a fact, which may or may not be true that the average of the properties sold is a true reflection of the average of all properties in the district. Sale of a higher proportion of the below-average properties, a common occurence, may give an average ratio that does not represent the district as a whole to the extent that the ratios on the below-average units differ from the district average.

Efforts to bring assessments up to market value levels by the use of ratio coefficients may be asking more of the ratios than they can provide. We have seen that it is difficult to get a ratio average that accurately reflects the average of all property. And unless internal equalization is perfect, such a program may place an assessment on some properties that is considerably above market value - or at least what the owner thinks is the market value of his property. In order to minimize friction and allow for fluctuation of market values between assessment dates, it is a good policy to keep the assessment value level somewhat below the market value level.

Assisting the Assessor

Assessors need assistance in the conduct of a ratio study. Not all assessors will want to cooperate, and unless they are interested it will probably not be worth while for them to make such a study. Moreover, the law in many states may not provide for mandatory studies of this kind. In any event, the best arrangement is voluntary one with the state tax commission and the research units of the state colleges and universities providing the types of information and assistance which the assessors require. In Iowa, George Cosson, Jr., Director of the State Property Tax Division, has followed a successful policy of this type. A state association of assessors may help through committees and educational work. Often times a little assistance to get the ratio study started and later to analyze the data is all that is required. Some assessors in Iowa have set up a continuing system of ratio computations and analysis based on the change in ownership cards which they get whenever a property changes hands. They not only keep their ownership file up to date by this method but their ratio records as well.

In conclusion, the way is clear to promote the use of assessment-ratios among assessors. A successful program of this type can be built on carefully worked out examples with answers to the various questions likely to arise. Two important points to be stressed in connection with these ratio studies are an understanding of their limitations and the advantage of cooperation of the state tax agencies, the research departments of the state colleges and universities, and the association of assessors.

CHAPTER XXIII

STATE ACTION FOR BETTER ASSESSMENTS*

Everywhere the pressure on the property tax is evident in America today. Rising school costs, from kindergartens through high schools, are the principal cause. But school costs are not the only factor. Higher costs and expansion of city and county services are also involved. In fact, because local governmental pressure for funds is so great, many states are finding that one of their most important activities is the financing of local services.

There was a time, not so many years ago, when public finance experts and other students of taxation made up their minds that the property tax had to go. It was to be replaced by other, more efficiently administered taxes that were more in line with the "ability-to-pay" principle.

But one important hurdle was overlooked: What other tax could replace the property tax? Every other tax - such as income, sales, inheritance, and the like - was being used up by the estate and federal governments to what was widely considered a desirable limit. As a result of this over-all evaluation, the public as well as the tax authorities are now reconciled to the prospect of continued used of the property tax for years to come.

It may not increase a great deal; in fact other taxes, both locally imposed taxes and those which form the base of state aid, may be used increasingly as supplementary revenues for local government purposes. But the old fashioned property tax has a solid position in providing a portion of the local tax revenue for schools and for city and county governmental services.

Consequently, since we are likely to have the property tax, we should face up to the problem of improving its administration. Some in the past have taken a look at this problem, wrestled with it for a spell, and then thrown in the sponge. This is unfortunate, because some progress is being made, especially in a few estates. And the study being given the question in other estates augurs well for the future.

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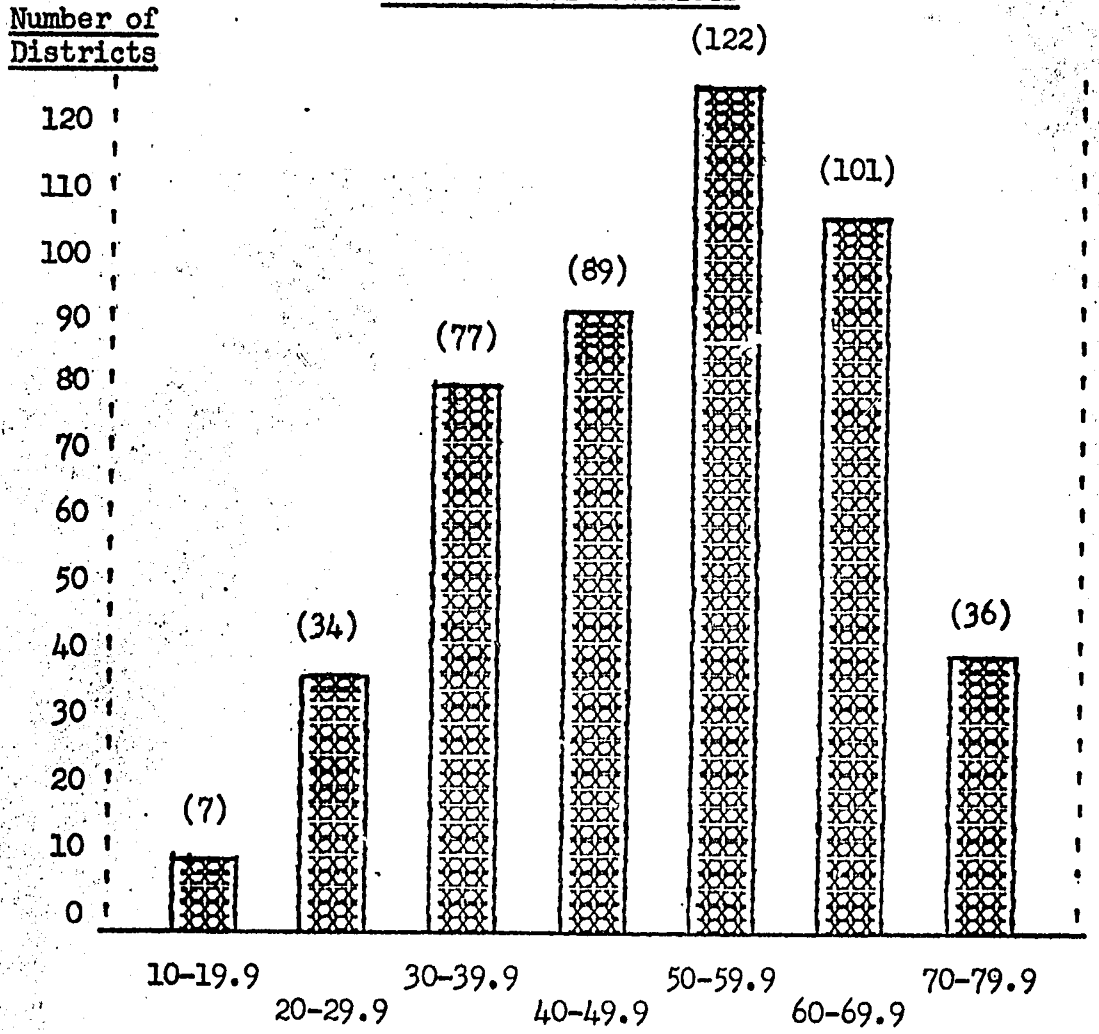
*Reprint from STATE GOVERNMENT, April, 1955 by Dr. William G. Murray.

Better Assessments, the Solution

Better assessments, it becomes increasingly apparent, provide the solution for many a state governmental headache which has risen from the pressure on property taxes and large state-aid programs. Better assessments provide equitable treatment among individual taxpayers - using property value as a base. They also furnish an equitable means of distributing state aid.

Illustrations of the need for better assessments are evident in a large number of studies. almost every state can furnish examples. One from Minnesota is shown below:

LACK OF UNIFORMITY OF ASSESSMENT RATIO
AMONG SCHOOL DISTRICTS



Variation among 466 school districts in nine counties of Minnesota. Based on assessment-sale ratios and appraisals. From Progress Report of the Equalization Review Committee, State of Minnesota, St. Paul, Minnesota, February, 1953.

In this instance the study was made by a state committee authorized by the legislature to find ways and means of equalizing assessments so that assessed valuations could be used as a fair method of distributing state aid to schools. The striking lack of uniformity portrayed in the figure illustrated the need for better local assessments. In addition to the variation among districts, it should be recognized that at least an equivalent amount of variation exist within each of the 466 school districts when individual assessments are compared.

Assessment is a local function - frequently state legislative action is the indispensable prerequisite to adequate local performance of it. Township (or, in New England, New York and Wisconsin, town) assessors, elected in the main, are still legally constituted assessment authorities in nineteen states. And townships (or towns) instead of counties are the official assessment units in parts of or all of these states. Continuation of this township policy makes much more difficult the introduction of the best professional methods which could improve the assessment situation. Another step in this same direction is the replacement of elected by appointed assessors who qualify through competitive examinations.

Why the Township Assessor?

In far too many cases the original assessment is still being made by a township assessor whose salary and qualifications are far below the professional level that the valuation function warrants. This is not to say that good township assessors don't exist. But the township system works against obtaining them. And this is a situation that can't be changed until the state legislature acts.

Why do we tolerate "horse and buggy" assessments when we have moved beyond this level in other fields? In designing roads and bridges we take for granted professionally trained engineers. In checking the local milk supply we insist on a trained bacteriologist or veterinarian. In checking loans by banking institutions we insist on rigorous bank examinations by qualified personnel. We do not make a practice of electing engineers, bacteriologist, or bank examiners, it would appear, because we consider their work is of a specialized, professional nature. Certainly we want to elect our public officials at the policy-making level. But should the people be asked to pass at the polls on the technical qualifications of the specialists?

Even in the assessment field, the professional approach has been widely adopted in the larger cities. Instead of electing percinct assessors to do independent percinct or ward assessments, one assessor for the whole city is elected or appointed, and he is allowed and expected to maintain a continuing group of trained personnel to do the valuation work. Where civil service or merit status has been achieved for this assessment personnel, it has been possible to build a highly competent professional staff. As evidence of the wisdom of providing this type of organization, we have today in the city assessment units the major group of trained professional personnel. What the larger cities recognized as good assessment organization years ago, and secured legislation to put into operation, is now a critical issue in many of the non-urban areas of the same states in which the same cities are located.

Township assessors have continued to persist because of inaction and public fear of what would happen if control were allowed to move to the county level. The time now has come to meet these arguments head on. The importance of the property tax in supporting needed local revenue and in servicing as a base for increased state aid requires it. The fear of losing local control is not longer unanswerable, because a majority of the states - including all eleven in the West, all except one in the South, and several elsewhere - have adopted the county system. They provide evidence that this fear of control by the county is not justified.

States which have the township assessor systems, however, still make up a long list in the East and Middle West. Only four of the thirteen midwest states surveyed by the author in 1954 have the county unit throughout - Iowa, Kentucky, Nebraska and Ohio, Illinois, Minnesota and Missouri have it in a portion of their counties. Illinois, Indiana, Kansas, Minnesota, and Wisconsin provide for county or district supervisors of assessments, but since elected township assessors still function in most cases, the supervisors do not have the authority of a county assessor.

Several states have endeavored to by-pass the local assessor by superimposing an equality area assessment on top of and in place of the local assessment. In one of them for example, the state assigns a multiplier to each county in order to bring that multiplier to each county in order to bring that county up to a statewide level. If the local level in one county is 20 per cent of the state department's desired level, then the multiplier assigned is 5, and all local assessments are multiplied by 5. If the level in another county is judged to be 40 on the basis of assessment-sale ratios and appraisals, the multiplier is 2.5.

This by-pass fails to correct the major weakness in assessments - lack of equality at the local level. If my house is assessed at 30 per cent and your house, in the same county, is assessed at 50, multiplying by 2.5 is not going to change this inequality. Furthermore, unless separate multipliers are prepared for individual townships and assigned to them, the inequalities between townships within the same county will remain after the county multiplier is used.

Good Original Assessments

The tendency in some states to substitute a county or district assessment supervisor for elimination of the township assessor has been noted. The object desired is to introduce modern, efficient methods through the means of a supervisor and at the same time retain the local autonomy of the township assessor. Unfortunately, experience indicates, about the only major achievement is the maintenance of local autonomy. This can be readily explained, since in most cases the township assessor is elected, feels a direct obligation to the electorate, and usually is the only person who actually visits, sees and evaluates the property items. In short, the township assessor makes the original assessment. As long as he is relatively independent of the supervisor there is no way to achieve uniformity.

Since the original assessment is the key to better assessments, state action is best concentrated on this local assessment function not on equalizing or otherwise changing township or county assessments in a wholesale manner. This between-county equalization function, although important, comes second. We need good original assessments first.

But how do we get good original assessments? As already pointed out, a first step is an efficient assessment unit. This calls for a unit large enough to support a professionally qualified assessor. In general, that means at least a county, in contrast to a township. In some areas it might mean a district made up of two or more counties.

A second requirement in good assessment organization, still relatively new outside the cities, is the appointed assessor. If he is to have the qualifications of a valuation expert, there is a valid argument for his appointment from a list of candidates who have passed a qualifying examination. This is essentially the situation, for example, in Iowa, where all assessors, both city and county, are appointed by a board made up of the three local tax levying units (city, county and school).

So far the Iowa system of appointed assessors is working reasonably well. The assessors, in the main, are showing definite progress in professional advancement and are cooperating both on a regional and statewide basis to achieve assessment uniformity in both the personal and real property fields. They have an active association, publish a monthly bulletin, and have initiated successful price-guide studies for personal property assessments.

A recent questionnaire distributed by the Iowa Farm Bureau to its members asked whether the present assessor law (in effect since 1948) is generally satisfactory, not satisfactory, or needs improvement. The answers were favorable.

In Kentucky a candidate for election as assessor must pass a qualifying examination. This examination given by the Department of Revenue, emphasizes the professional nature of the assessment function. In order to be effective, of course, the examination needs to be rigorous.

An appointed assessor or one who has passed an examination does not in himself assure better assessments. The system, however, does provide a favorable organization for the making of improved assessments. A qualified assessor will have to use the recognized tools of the trade - maps, aerial photographs, soil surveys, building cost and price data, income checks, an appraisal card system, and other technical devices in making his valuations. In all probability he also will use various methods of checking his results, such as bench mark appraisals, boundary comparisons and assessment-sale ratios.

Reappraisal programs by outside firms, or by state or county personnel, have been suggested as a substitute for professionally trained assessors. Reappraisals often are needed, but this suggestion may overlook the continuing valuation service that is required in maintaining a mass reappraisal from year to year once it is made. New buildings, depreciation, rezoning, soil erosion, and similar factors are constantly changing the valuation picture. A reappraisal is no substitute for valuation ability in an assessor.

State Assistance

Assessors, even though well qualified, can benefit from assistance provided by a state administration. This can be of various types. An important one is the appraisal of large and complicated properties which the county assessor finds it difficult to assess without expert assistance, such as a state valuation unit often is able to provide. A second type is provision of an appraisal staff which can work with the county assessor in carrying out a mass appraisal or reappraisal project throughout all or a portion of the assessment district. A third is personal assistance in organizing a set of assessment maps, aerial maps, card files and office procedures; and in counselling on such projects as bench mark appraisals, boundary checks, the making of assessment-sale ratio studies and the preparation and use of uniform price guides.

How far should the state go in providing assistance? There is still some healthy disagreement on this point. County assessors generally do not want supervision; they want assistance. On the other hand, state tax administration do not want to set up expensive valuation units that may or may not be used, depending on unpredictable decisions of county assessors or county boards. A mutual arrangement is the ideal; one in which the assessor and his board ask for certain types of assistance in advance, and one in which the state recognizes local autonomy by providing the help not in terms of directives but assistance.

Several states, including Kentucky and Oregon have been experimenting with this latter form of assistance. Reappraisal service is the major assistance offered in the Oregon program. But this has interesting ramification; for example, it has led to the development of an apprentice training program in which some of the state appraisal personnel have obtained positions as deputy assessors in the counties to assist in maintaining and keeping up to date the assessments after the mass reappraisal is completed. Furthermore, while the reappraisal is being made, it is possible to assist the county assessor in reorganizing his office for more efficient operation.

An Improvement Program

A list of specific suggestions for improving assessments was prepared at the conclusion of the midwest survey of thirteen states. The suggestions, summaries of which follow, may be used by legislative study groups, state tax commissions, assessment boards, and individual assessors in evaluating the organization and operation of the assessment systems under their jurisdictions.

1. County unit in place of township:

   The township in most cases is too small to support an assessor with adequate skill.

2. County assessor in place of township assessor:

   A full time county assessor can employ competent help to do field assessing under his supervision and thereby achieve local uniformity throughout the county.

3. High qualifications for the county assessor:

   A. Skill - To be eligible for the assessor position, an individual should have certain qualifications, the most important being appraisal skill and administrative ability.

   B. Examination - Some test or examination can be required to determine which individuals have the desired qualifications.

   C. Salary - Unless the salary is in line with the qualifications, the position will not attract the type of assessor wanted.

   D. Appointment - An appointed assessor may be able to come closer to providing impartial service than an elected assessor. Results of assessment where assessors are appointed should be studied closely.

4. Reassessment or reappraisal program:

   If they have not been reappraised by competent appraisers in recent years, most counties need to be reappraised. This should not be done, however, until a skilled assessor has been appointed or elected. The county assessor can then recommend a plan to the proper county officials. It may involve state assistance, an outside firm or a reappraisal made under his own supervision. In any case the county assessor should be in on the reappraisal from start to finish, because it will be his task to keep it up to date after it has been made.

5. Real estate assessment practices:

A. Maps - A system of maps, plats and aerial surveys an essential unit in good assessment office.

B. Soils and cost data - Soil and yield data for land and cost data for buildings, are standard too in modern appraisal.

C. Bench mark appraisals - An excellent way to build good system of assessments is to make a detai appraisal of several key or bench mark propert Other properties can then be compared with the key units. The key units should be located in different parts of the county and represent ty pical units in these sub-areas.

D. Appraisal card system - Good assessment requires a system for recording data on building dimensio building characteristics and value calculation for each tract assessed. This information on each unit provides the assessor and the indivi ual taxpayer with the basic data which indicat the impartiality of the assessment.

E. Assessment-sale ratios - The county assessor is in excellent position to use the assessment-sale ratio. He can check the sales to determine if they are bona fide and he can use the ratio results to measure the uniformity he is achievin With a little assistance from the state tax com mission the county assessor can do most of the work himself. In some cities and counties, assessors are carrying on their own assessment-sale ratio studies.

F. Border checks - An efficient method of inter-county equalizing is border checking. The assessors concerned drive along their common boundaries comparing the assessments on either side of the line.

G. Advisory committees - The assessor can use to advantage a citizens advisory committee to explain his methods and get public reactions.

6. Personal property revisions:

A. Exemptions - A wide diversity in exemption practice in the different states justifies special study of this problem.

B. Household property - Difficulty of getting this property listed and valued equitably suggests a limitation to relatively few large items of the luxury or semi-luxury class such as television sets, or the complete elimination of taxation of household property.

C. Business property - Use of an average inventory appear to be more equitable than the one date assessment

7. Between-county equalization:

A. Assessment-sale ratios - These have proven the best basis for equalization or real estate assessments Successful inter-county equalization requires good equalization within the county first. Eventual equalization of all property groups is attainable.

B. Personal property - More techniques are needed as a basis of comparing one county with another.

8. Educational activities:

A. Assessors - Schools and assessor clinics should be encouraged as a means of professional training, of picking up ideas and comparing notes with other assessors. Regional group meetings are excellent means of in-service training and communication. State colleges and universities should be invited to participate in educational activities.

B. Public - Assessors should have a continuing program of acquainting citizens with their assessment systems.

9. Research:

Assessors and state tax commissions can benefit from more research on assessment and related phases of the property tax. In addition to the colleges and universities, various foundations and groups are interested in cooperating on research programs - such as the National Association of Assessing Officers, the American Institute of Real Estate Appraisers, the American Society of Farm Mangers and Rural Appraisers, the National Tax Association, and the Federation of Tax Administrators.

Such are some of the means by which, the survey indicated, local assessment procedures can be improved. Study, review, research and experience in different states can refine these methods and develop more. Certainly the objective is important - to the state government as well as to the localities.

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CHAPTER XXIV

BASIC ASSESSMENT POLICY*

There seems to be no end to the number of instances where sound property appraisals are advisable. The purchaser of property should have a definite, reliable appraisal before buying, and such an appraisal is of the greatest value to him.

If he is buying the property for investment, he should know its probable net return on the capital required. This can be established only when there is knowledge of the definite factors that constitute value, the ownership cost, and accurate charges for depreciation, interest, and so on.

This appraisal will be needed also for placing co-insurance, as on the basis of sound appraisal a definite premium savings can often be effected. The collection of any loss covered by insuranc is usually easier when the insured's claim is backed by an apprais which is probable and disinterested.

Appraisal in connection with a long-term lease is also essential. This should be supported by valuation trends as well as evidence of appraised value, giving consideration to income.

There are many other instances where sound appraisals are needed, such as in accounting, condemnation, mortgage foreclosures, federal and local government tax requirements. Appraisals are often necessary in the settlement of estates.

Any of these types of appraisals requires a certain technical knowledge of various things. Appraisals for business purposes are of an individual nature; they require intelligent study of each subject property. But in all these cases, the appraiser is able to take whatever time is needed and can go into each case in much detail.

Appraisal for Taxation

In appraising for taxation, the most vital thing to be achieve is uniformity. The need of the assessor is for a method as simple as possible which will at the same time enable him to arrive at equitable valuations. In contrast to the appraiser for business reasons, the assessor is confronted with the problem of mass appraisals and legal deadlines.

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*From the APPRAISAL JOURNAL XXI - 1, January, 1953 by Bert Zuber.

The assessor must be governed by the laws of the state in which he operates. Some states direct that real estate be revealed and reassessed every four years - as is the case in Iowa - while others require a revaluation every two years or every year. Whatever period is stipulated, the assessor must establish, on the revaluation date, sound values which will be justifiable for the particular period named in the law of his state; that is, a sort of average or mean which will reflect possible dips or rises in economic conditions. In other words, the assessor cannot follow economic trends as closely as appraisers in private business. Such elasticity is not possible in his work, especially in those states which call for revaluation only every four years.

Appraisals for tax purposes must result in uniformity insofar as possible since the work done by the assessor and his staff apportions the tax load among all property owners. If these values are uniform, then each owner pays his proper share of the tax. However, it must be remembered that even though uniformity may have been achieved, the values must not be higher than can be sustained in a court of competent authority, or higher than the reproduction cost on the valuation date.

Assessment for taxation involves many technical and legal problems. The business appraiser is free to make his determinations virtually without restrictions, except those set forth in his code of ethics; but the assessor must follow out faithfully the directions set out for him in the law.

Assessing officers should make use of all factors in determining values, giving consideration to those measurements of value which are standard and recognized by the courts. In Iowa, the assessor is obliged to place his real estate values with the knowledge that they will, generally, be in effect for a four-year period. While it is true that he must take proper recognition of the economic conditions in determining his values, there is the possibility, in periods of depression, that the meager revenues derived from such values might seriously hamper local government. This situation did occur in Des Moines in 1937, and is well remembered by many of the taxpayers.

In 1893, corn had dropped down to 8¢ a bushel, and the Burlington Railroad bought thousands and thousands of bushels of it and piled it along the right of way. Later, they sold it for 25¢ a bushel, making a very substantial profit. This only goes to show that conditions change, and that values as they are today could materially recede.

Beginning with 1929 or shortly thereafter, real estate sales started their downward trend in number as well as amount, and kept going lower until about 1934 when they began to level off somewhat. Until late 1941 there was very little activity or increase in sales prices of real estate. Late in 1941 residential properties began to advance rather rapidly, not only in number of sales but in prices. Up to that time there had been considerable property selling at figures less than their assessed values. Yet, the assessed values were not reduced to a level comparable to current sales prices.

This condition has been reversed. Since the beginning of World War II sales prices have increased steadily. It is generally agreed that we are in a period of decided inflation. Since the length of time this situation may exist is unknown, it would seem advisable for the assessor to be conservative, when sales prices are high, as he was under the opposite situation, when property prices were depressed. In other words, he should disregard any deviations which seem to be the result of unsettled times. Though many things point to a continuation of high prices, a few authorities believe there will soon be a change downward.

Incidentally, Iowa is the most sensitive of all states to a change in national income. If the national income increases 10%, Iowa's income will increase 14%. If there is a national decrease, Iowa's income will be reduced in this same proportion.

Difficulty in Defining Value

The recently publicized controversy over what constitutes a "Christian" is of interest here because, in a sense, it stresses one of the basic problems in appraising. This question arose in an Iowa court case. A man of some wealth died, and his will stipulated that the bulk of his wealth was to be given to a "Christian." The executors of the state were unable to agree as to the definition of the word "Christian" and presented their problem to the court. The court called in clergymen and lawyers for consultation. It was the conclusion of this group, as well as the judge, that the word "Christian" could not be defined in such a way as to enable them to distribute the money in accordance with the terms of the will.

The term "Christian" presents no greater difficulty than the question of what constitutes "value." Much has been written and discussed regarding it and much effort has been expended in trying to find some method or mechanical formula which could be used by those who have the task of determining "value." Such efforts have not been very successful, because an appraisal is an estimation - even when based on standardized principles, including all known factors used for its determination. The valuation of real property has not yet been developed into an exact science and probably never will be. Value, as seen either by the assessor or by the appraiser, is purely a matter of considered opinion.

In determining the value of real estate most appraisers use three guides or approaches - practically the same ones which the law in Iowa directs that assessors use, namely:

1. The productive and earning capacity of the property, if any, past, present, and prospective.

2. Its market value, if any.

3. Any other matters that affect actual value (reproduction cost, sales value, comparative sales).

With these simple instructions, assessing for taxation ought to be easy. All the assessor has to do is to find the value.

There are more than thirty different words used to modify value: sound value, cash value, market value, intrinsic value, and many others. But the assessor must be concerned with just one kind of value; that is, the value for tax purposes. This is the value of a property on which a tax will be computed so that the owner will pay his share of the cost of local government in the community in which he lives - and in most any community it takes a lot of money! Any assessor who allows himself to be led astray by too much consideration of the various types of value, too much attention to temporary evidences of value, is not performing the task to which he was assigned.

As a workable guide, the term market value presents a difficulty because markets are transitory - and, if only a small part of the property to be assessed is actually marketed, such transactions cannot be employed to determine the assessed values for the entire district. Under ideal conditions, market price and market value would be the same. But when economic conditions are unsettled, when there is no market, or when the relationship of supply and demand is substantially off balance, there may be, and often is, an appreciable difference between them. An opinion as to market price based on actual sales alone, may be higher or lower than market value, depending on any one or many of the conditions previously suggested. It is well-established fact that sales are often untrustworthy guide to value. Evidently our legislatures have recognized this, and the courts too have favored allowing the assessor wide latitude in the use of judgment to determine "value."

Equalization Basic

Equality and uniformity are vital to fair assessments, and if these all-important ends are to be attained, too much emphasis cannot be placed on market or sales values. A Des Moines organization which does considerable research work in real estate sales, has stated that they can apply a given rate of percentage to the assessed values on individual properties and will come out within a few dollars of what the properties can or will be sold for. In other words, while the assessed valuations are not the same as the prices being paid for real estate now, they are sufficiently uniform so that when a certain rate is applied to them the figures obtained will be close to the sales prices.

It is doubtful if we can point to a period of time, either in the past, or the future, that would truly represent "normal conditions." This is due to the fact that the whole world is constantly changing, and conditions must change with it. It has been said that market value is the "amount which one desiring but not compelled to purchase will pay, under ordinary conditions, to a seller who desires but is not compelled to sell." But as a matter of fact how many times do we have a willing seller or a willing buyer - since the seller thinks he is paying too much? Determining a "normal situation" then, is like the old idea of superior and inferior races. One of the races under discussion must decide which is superior and which is inferior - there can be no totally disintereste opinion.

The whole point is that an assessor must use more than ordinary restraint against the pull of any fluctuating situations -

both in times of depression, or so-called prosperity. When Bernard Baruch was asked to make a prediction about what the stock market would do, he stated, "It will fluctuate."

Everyone will agree that from 1929 to the early beginnings of World War II, conditions had been depressed. The situation became so acute that Polk County had bought at scavenger sale, 18,615 pieces of property on which the taxes were unpaid. Then in the latter part of 1941, the country began to go in the other direction - higher prices, more employment, greater national production and income. What seemed in 1941 and 1942 to be high market prices for real estate, would now be viewed as big bargains! So what? Does the assessor have a crystal ball? Shall he consult a ouija board? The international picture could change one way or the other almost overnight. It would take some time for present conditions to change drastically, but it is not inconceivable that we could again experience a return to conditions similar to those of the thirties.

Today's situation can be said to be abnormal because over a long period of time things have been steadily moving upward, and since such a condition is exceptional and irregular, it is abnormal. When the assessor fixes an "assessed value" that value cannot mean panic or emotional value, auction or forced value, speculative or gambling value - nor any value fixed by definitely depressed or inflated prices.

If possible, stability of assessments from year to year is preferable to frequent changes. When inflation is present, one would expect valuations for tax purposes to be higher. Yet there are a number of factors in this connection which should be given consideration by the assessor.

A community is not different than an individual. Usually with the individual, the higher the income the higher the standard of living. If a man's income is $50,000, we usually find him driving a Cadillac or similarly high-priced car. If he makes $10,000 or less, he is likely to drive a car in the low-priced field. In other words, the more a man makes, the more he spends. When he receives an increase in his compensation, he often thinks of something to spend the extra money for. And so, in a general way, it is with communities. Many levies have ceilings which are increased if the assessed-valuation totals are increased.

Appraiser and Assessor Compared

We have discussed the similarities and differences between the work of the business appraiser and that of the assessor. Now let us talk about the two groups as such. We find each group struggling to raise its status; each eager to have its work considered as a profession. This is not a selfish ambition. In every vocation - that of doctor, lawyer, minister, teacher - human interests are better served if those engaged in the work view it as a profession and are required to meet certain standards. For a considerable time past, in many lines of business and in public service, more and more emphasis has been placed on greater knowledge, more extensive training, and more conscientious attention to the quality of service rendered to the public.

In any group seeking to raise its standards there must be a central organization, where ideas can be exchanged and guidance obtained. It has been shown that members of professional groups respond more readily to interests of the public than individuals not so organized. For the appraiser it is such organization as the American Institute of Real Estate Appraisers. For the assessor, it is the National Association of Assessing Officers. In the code of ethics, guidance, and assistance rendered generally by these two bodies, there is great similarity.

Many of the qualifications which are required for membership in both groups are no doubt similar. The following are the basic or fundamental qualities which an assessor should possess, regardless of the type or extent of his jurisdiction:

1. He must have knowledge of the principles of assessing, and of the laws and judicial opinions governing assessing in his jurisdiction.

2. He must be honorable. He must be determined to perform his duties according to his best judgment - impersonally, impartially.

3. He must view his work, not as a temporary means of livelihood, but as a career in which he is willing to work he performs for the public.

4. Unlike the business appraiser, the assessor is required to make mass appraisals; his dealings are with the public. Regardless of his technical skill in apprais-

ing property, he cannot be successful if for any reason he is unable to acquire and retain the confidence and friendship of the public.

Under the general heading of "knowledge" is that gained from books; that gained from exchange of ideas with others; and that which comes from experience over a considerable period of time. Among the best assessors will be found those men who have had one advantage of actual experience in the field and have acquired mature judgment. Such men will have learned, over a period of time, to be conservative in their thought, and to take into consideration the many factors which must be employed in order to reach the right conclusions.

It can be seen that if an assessor is to perform his duties impartially, basing his decisions only upon the actual data regarding each property, he should not be hampered or restrained by political pressures. It is true that many able and conscientious assessors are obliged to work under this handicap, but for some time there has been movement away from it.

Apart from the basic qualities which apply to all assessors, certain jurisdictions call for special capabilities. The larger cities need an assessor who has administrative ability, and in these places he should be freed from exhausting details so that he will have time to supervise and co-ordinate the activities of the office.

In the smaller jurisdictions, the maintenance of good public relations will be a more or less personal, man-to-man project, but in the larger communities it is more complex and can entail activities along many lines, including relations with the press and civic organizations.

Conclusion

The object of any discussion is to clarify the subject so that some future good can be accomplished. We have pointed out a number of differences between the work of the business appraiser and that of the assessor. For instance, a valuation by an appraiser is definitely established as of the date of the appraisal. Six months or a year later, conditions may have occurred which will change the appraisal of this particular piece of property. And, if called on to do so, the appraiser can then make a new appraisal which may be quite different. At the time the assessor places his value on a piece of property, he is obliged to fix the figure for the entire assessing period - always keeping it in line with the similar properties.

Of course, it is understood that whatever the work is, the worker accepts his limitations, frustrations, and irritations with good grace. The baker knows he will sometimes get burnt; the plumber knows he will sometimes get wet; the merchant knows he will often have to stifle his sense of justice and agree with the customer. But there is one great difference between the work of the appraiser and that of the assessor: When the business appraiser takes on a job, all information as to income, acquisition cost, and so on, is willingly laid before him. When the assessor attempts to obtain information for tax purposes, a different situation is present. Here, the owner is being compelled to contribute to the government treasury - in an amount measured by an appraisal of his taxable wealth. So, in many instances, whatever information is obtained must be pulled, dragged, or coaxed from the owner. Let us not be too harsh in our judgment of this individual. It is simply a case of where the spirit is willing, but the flesh is weak! An assessment must do his whole duty, which is to fix his values on a strictly comparable basis, one property with another.

Summing it all up, we see that the business appraiser and the man who appraises for taxation are brothers under the skin. Each is, perhaps more than is realized, dependent on the other for help and information.

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COMMENT AND RECOMMENDATIONS

In the valuation of agricultural lands for credit and taxation purposes by our credit institutions and tax assessment bodies, the productivity index and depth of the different kinds of soils, land capability and capitalized net income factors are not being considered which resulted in not a few loan foreclosures and unequal tax assessments.

In order to facilitate soil surveys which may be made available to appraisers, Agricultural Extension Agents, farmers and other agencies dealing with the appraisal of real estates for purchase or mortgage and assessments for taxation purposes, the Bureau of Soils should be allotted additional funds by Congress.

The Division of Economics of the Department of Agriculture and Natural Resources and the Bureau of Census and Statistics should set up a standard family living expense, long-time prices of farm products and commodities by regions. Banking institutions dealing with real estate loans should likewise set up a rate of capitalizing the net returns of farming and/or business firms for the use in the determination of the appraised and market values.

To equalize taxation of agricultural and non-agricultural lands, the Iowa (Polk and Hancock Counties) Tax System as discussed earlier, should be introduced in this country.

In order that tenants will be able to pay for the lots bought from the Land Tenure Administration, send their children to school and still have little savings for the "rainy days", the "normal market value" as used by the Farmers Home Administration and Farm Credit Administration as discussed previously, should be the basis of prices offered to landowners in negotiated purchases by the Land Tenure Administration and likewise, in expropriation proceedings, the capitalized net income from properties plus improvements and other tangible and intangible values adhered to the property should be factors in fixing the price of expropriated agricultural and urban properties.

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Appendix "A"

TRAINING PROGRAM AND ITINERARY

1957	
January 29	Arrival in the United States
February 1 - 15	WASHINGTON, D.C.
(February 1)	INTERNATIONAL COOPERATION ADMINISTRATION Office of Food and Agriculture 806 Connecticut Avenue, N.W.
CONTACT:	Mr. Myron R. Brock Administrative Officer Room 603 Maiatico Building
Object:	To discuss insurance, immigration registration, international travel, book and pamphlet forwarding services, reporting and other administrative arrangements.
CONTACT:	Mr. F. L. Kerr Technical Advisor Room 617 Maiatico Building
Object:	To discuss details of the general content and objectives of the study program and its relationship to the technical cooperation program between the United States and the Philippines.
(February 4 - 8)	WASHINGTON INTERNATIONAL CENTER 1720 Rhode Island Avenue, N.W.
CONTACT:	Dr. Harry A. Wann Director
Object:	To engage in a series of seminars, lectures and tours designed to acquaint participant with the historical background, governmental structure, culture, traditions and customs of the United States.

(February 11 - 15) UNITED STATES DEPARTMENT OF AGRICULTURE
14th and Independence Avenue, S.W.
Foreign Agriculture Service
Farm Credit Administration
Farmers Home Administration

CONTACT: Mr. Ross J. Silkett
Foreign Training Division
Foreign Agricultural Service
Telephone: REpublic 7-4142
Extension 5804

Office Location: (Do not use this address for mail)
Room 279 Escanaba Hall
900 Independence Avenue, S.W.

Mailing Address: Mr. Ross J. Silkett
Foreign Agricultural Service
U.S. Department of Agriculture
Washington 25, D.C.

Object:

1. General orientation with respect to American agriculture, and the role of the United States Department of Agriculture, Land-Grant Colleges and Universities, and other agencies, institutions and organizations dealing with the general field of study.
2. To discuss and further develop, in consultation with other USDA staff members, the program to be followed.

February 16 Leave: Washington, D.C.
Arrive: Little Rock, Arkansas

February 18 - March 1 Farmers Home Administration - USDA
Little Rock, Arkansas

CONTACT: Mr. Maurice J. Mills, State Director
Farmers Home Administration - USDA
301 Federal Building
600 West Capital Street

Object: To learn the methods, techniques, and principles and develop skill in the appraisal of farm land by study and observation of actual farm appraisal work being conducted by the Farmers Home Administration.

March 2
Leave: Little Rock, Arkansas
Arrive: Columbia, South Carolina

March 4 - 15
Farm Credit District of Columbia
Columbia, South Carolina

CONTACT:
Mr. Henry S. Johnson
Director of Information
Farm Credit District of Columbia
Federal Land Bank Building
1401 Hampton Street

Object: To learn the methods and procedures used by the Farm Credit Administration in making appraisals of farm land by traveling, observing and conferring with one or more FCA appraisers in their actual work of appraising forms.

March 16
Leave: Columbia, South Carolina
Arrive: Ames, Iowa

March 18 - June 28
Iowa State College
Ames, Iowa

CONTACT:
Dr. Floyd Andre, Dean
College of Agriculture

Object:

1. To gain a thorough knowledge of methods and techniques used in farm appraisals in the United States by enrolling as a special student for the spring quarter. Major emphasis should be land appraising with farm planning on small farms and land taxation as minor subjects.

(June 17 - 28)

2. To learn the procedures used by county tax assessors in valuing land

for tax purposes. Arrangements for study with or more County Tax Assessors to be arranged by Iowa State College.

June 29 **Leave:** Ames, Iowa
Arrive: Washington, D.C.

July 1 - 11 WASHINGTON, D.C.

UNITED STATES DEPARTMENT OF AGRICULTURE
14th and Independence Avenue, S.W.
Foreign Agricultural Service
Farm Credit Administration
Farmers Home Administration

CONTACT:
Mr. Ross J. Silkett
Program Specialist
Foreign Training Division
Foreign Agricultural Service
Telephone: REpublic 7-4142
Extension 5804

Office Location:
(Do not use this address for mail)
Room 279 Escanaba Hall
900 Independence Avenue, S.W.

Mailing Address:
Mr. Ross J. Silkett
Foreign Agricultural Service
U.S. Department of Agriculture
Washington 25, D.C.

Object: Summarization of study experiences; follow-up of specific questions and problems as required; preparation of report and evaluation interviews.

INTERNATIONAL COOPERATION ADMINISTRATION
Office of Food and Agriculture
806 Connecticut Avenue, N.W.

CONTACT:
Mr. Myron R. Brock
Administrative Officer
Room 603 Maiatico Building

Object: Completion of return transportation arrangements and checking on other business matters.

CONTACT: Mr. F. L. Kerr
Technical Adviser
Room 617 Maiatico Building

Object: Consultation regarding plans on returning to the Philippines and the relationship of this study project to the Cooperative Technical Exchange Program between the United States and the Philippines. Submit interim report.

July 12 **Leave:** Washington, D.C.
Arrive: Honolulu, Hawaii

July 15 - 26 INTERNATIONAL COOPERATION CENTER
Honolulu, Hawaii

CONTACT: Dr. Dai Ho Chun
1060 Bishop Street
International Cooperation Center
Suite 610, Gasco Building

Object:

1. For reception and orientation, actual training will be conducted by representatives of the Farmers Home Administration in Land Appraisal work. Farmers Home Administration in Washington will contact their local office direct.

2. To visit the Island of Kauai, to study land development and farm land appraisal in relation to the production of tropical crops such as pine apple, sugar cane, vegetables, rice, taro as well as cattle raising and dairying on small privately owned farms.

3. To visit Kona, Hawaii, Territory of Hawaii, to study land development

and farm land appraisal in relation to the production of coffee.

July 27 **Leave:** Honolulu for return to the Philippines

Note: The International Cooperation Administration will make arrangements for air transportation from Honolulu to Kona and to the Island of Kauai.

"CONTACT" indicates the office to which the participant should report. The person listed, or his representative, will discuss the program to be carried out in that location and its relation to training received elsewhere. All mail, checks and telegrams will be delivered through this office.

PROGRAM AND ITINERARY DEVELOPED COOPERATIVELY BY:

Institutions, organizations, and firms listed herein, and
Mr. F. L. Kerr, Office of Food and Agriculture, I.C.A.
Mr. Ralph U. Battles, Farm Credit Administration
Mr. Harry N. Weigandt, Farmer Cooperative Service, U.S.D.A.
Mr. Karl J. Magleby, Farmers Home Administration, U.S.D.A.
Mr. Ross J. Silkett, Foreign Training Division, U.S.D.A.

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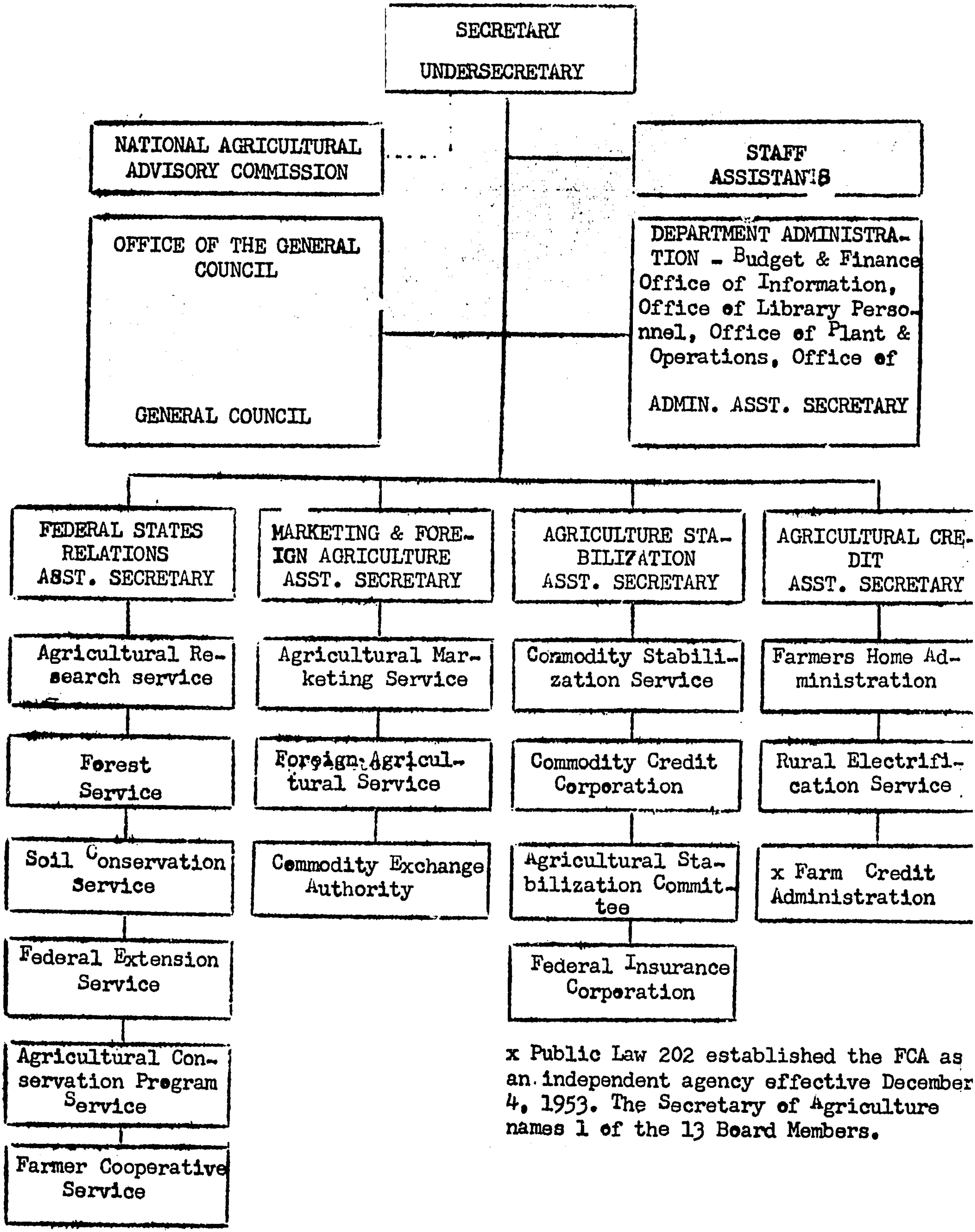
Appendix B

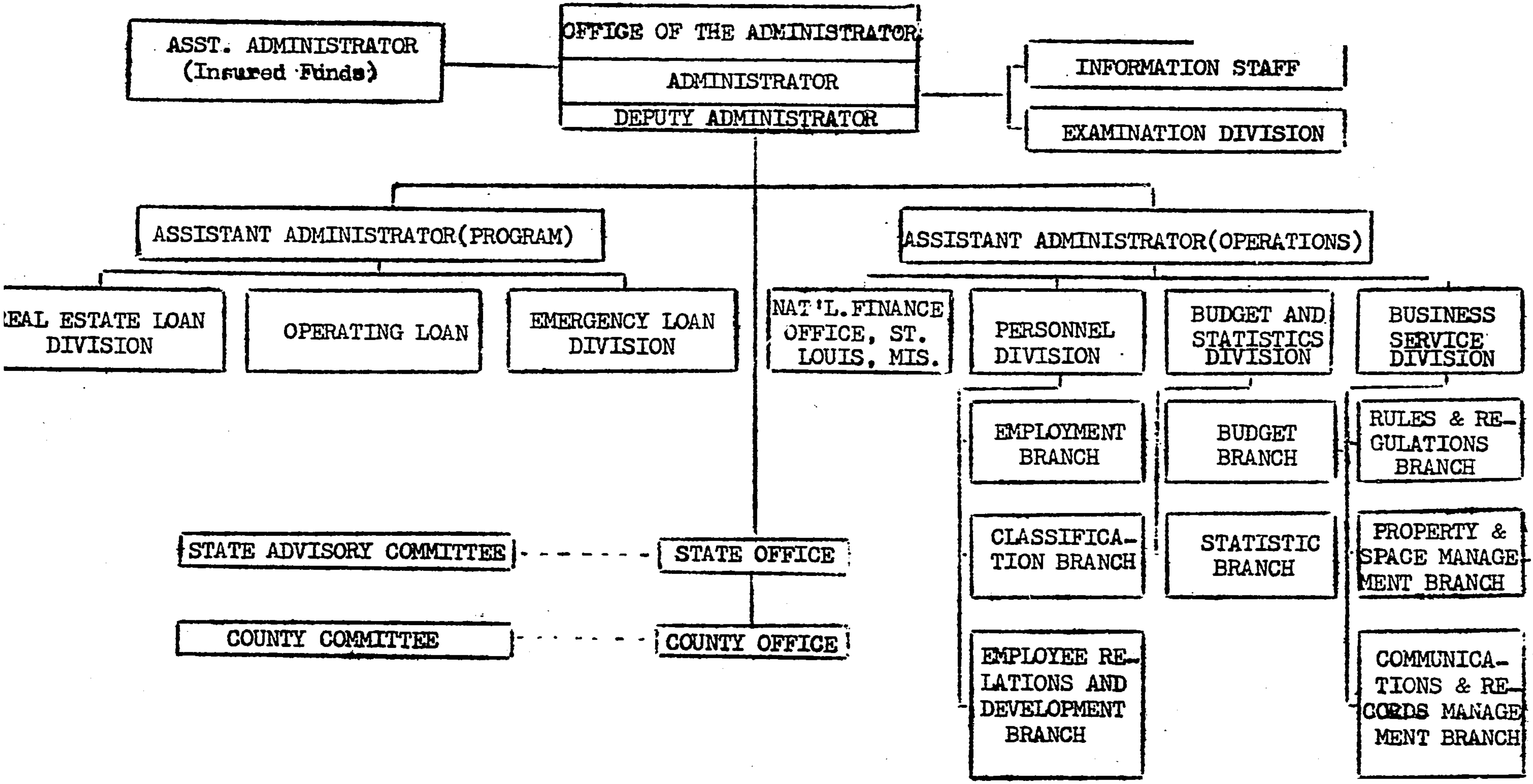
UNITED STATES DEPARTMENT OF AGRICULTURE ORGANIZATION CHART


SECRETARY
UNDERSECRETARY
NATIONAL AGRICULTURAL ADVISORY COMMISSION
STAFF ASSISTANTS
OFFICE OF THE GENERAL COUNCIL
GENERAL COUNCIL
DEPARTMENT ADMINISTRATION - Budget & Finance Office of Information, Office of Library Personnel, Office of Plant & Operations, Office of
ADMIN. ASST. SECRETARY
FEDERAL STATES RELATIONS ASST. SECRETARY
MARKETING & FOREIGN AGRICULTURE ASST. SECRETARY
AGRICULTURE STABILIZATION ASST. SECRETARY
AGRICULTURAL CREDIT ASST. SECRETARY
Agricultural Research service
Forest Service
Soil Conservation Service
Federal Extension Service
Agricultural Conservation Program Service
Farmer Cooperative Service
Agricultural Marketing Service
Foreign Agricultural Service
Commodity Exchange Authority
Commodity Stabilization Service
Commodity Credit Corporation
Agricultural Stabilization Committee
Federal Insurance Corporation
Farmers Home Administration
Rural Electrification Service
x Farm Credit Administration

x Public Law 202 established the FCA as an independent agency effective December 4, 1953. The Secretary of Agriculture names 1 of the 13 Board Members.

Appendix C

FARMERS HOME ADMINISTRATION ORGANIZATION CHART



ASST. ADMINISTRATOR (Insured Funds)
OFFICE OF THE ADMINISTRATOR
ADMINISTRATOR
DEPUTY ADMINISTRATOR
INFORMATION STAFF
EXAMINATION DIVISION
ASSISTANT ADMINISTRATOR(PROGRAM)
ASSISTANT ADMINISTRATOR(OPERATIONS)
EAL ESTATE LOAN DIVISION
OPERATING LOAN
EMERGENCY LOAN DIVISION
NAT'L. FINANCE OFFICE, ST. LOUIS, MIS.
PERSONNEL DIVISION
BUDGET AND STATISTICS DIVISION
BUSINESS SERVICE DIVISION
EMPLOYMENT BRANCH
CLASSIFICATION BRANCH
EMPLOYEE RELATIONS AND DEVELOPMENT BRANCH
BUDGET BRANCH
STATISTIC BRANCH
RULES & REGULATIONS BRANCH
PROPERTY & SPACE MANAGEMENT BRANCH
COMMUNICATIONS & RECORDS MANAGEMENT BRANCH
STATE ADVISORY COMMITTEE
STATE OFFICE
COUNTY COMMITTEE
COUNTY OFFICE

FARMERS HOME ADMINISTRATION RESPONSIBILITIES OF EMPLOYEES

ADMINISTRATOR - Responsible to the United States Department of Agriculture for the coordination and normal functioning of the Administration.

DEPUTY ADMINISTRATOR - Responsible to the Director, Agricultural Credit Services, for the administration of the Farmers Home Administration.

(A) INFORMATION STAFF - Responsible for the administration of the Farmers Home Administration informational activities. Develops and recommends policies with respect to such activities. Provides technical advice and assistance to field personnel.

(B) EXAMINATION DIVISION - Responsible for the administration of the Farmers Home Administration internal audit and investigation activities. Develops and recommends policies and procedures with respect to such activities.

ASSISTANT ADMINISTRATOR (INSURED LOAN FUNDS) - Responsible for the administration of the insured loan funds activities of the Farmers Home Administration.

ASSISTANT ADMINISTRATOR (PROGRAM) - Responsible for the program activities of the Farmers Home Administration.

(A) REAL ESTATE LOAN DIVISION - Responsible for the administration of loan making, loan servicing, and debt settlement activities, including engineering services, in connection with real estate type loans (such as Farm Ownership, Soil and Water Conservation, and Farm Housing loans). Administers the reserved mineral disposition program. Develops and recommends policies and procedures with respect to such activities. Provides technical advice and assistance to field personnel.

(B) OPERATING LOAN DIVISION - Responsible for the administration of loan making, loan servicing, and debt settlement activities in connection with production-type operating loans, including the servicing of production-type loans made by predecessor agencies. Develops and recommends policies and procedures with respect to such activities. Provides technical advice and assistance to field personnel.

(C) EMERGENCY LOAN DIVISION - Responsible for the administration of loan making, loan servicing, and debt settlement activities in connection with emergency type loans (such as Production Emergency, Economic Emergency, Special Emergency, Special Livestock, and Fur loans). Develops and recommends policies and procedures with respect to such activities. Provides technical advice and assistance to field personnel.

ASSISTANT ADMINISTRATOR (OPERATIONS) - Responsible for the operations activities to the Farmers Home Administration.

(A) NATIONAL FINANCE OFFICE, ST. LOUIS, MISSOURI - Responsible for the administration of Farmers Home Administration fiscal and accounting activities and servicing field offices in connection with supplies, space, property, and purchasing. Develops and recommends policies and procedures with respect to such activities. Provides technical advice and assistance to field personnel.

(B) PERSONNEL DIVISION - Responsible for the administration of the Farmers Home Administration personnel activities, including employment, classification, salary administration, employee relations and development, training, safety, health, and disciplinary actions. Develops and recommends policies and procedures with respect to such activities. Provides technical advice and assistance to field personnel.

(1) EMPLOYMENT BRANCH - Responsible for employment activities, including recruitment placement, retirement, and leave.

(2) CLASSIFICATION BRANCH - Responsible for classification activities, including the appraisal and classification of

positions, development of job specifications, standards of performance, and qualification statements.

(3) EMPLOYEE RELATIONS AND DEVELOPMENT BRANCH Responsible for employee relations and development activities, including safety, health, welfare, performance ratings, honor awards, and any injury compensation.

(C) BUDGET AND STATISTICS DIVISION - Responsible for the administration of budget and statistical activities of the Farmers Home Administration, including the State Rural Rehabilitation Corporation. Develops and recommends policies and procedures with respect to such activities. Provides technical advice and assistance to field personnel.

(1) BUDGET BRANCH - Responsible for Farmers Home Administration budget estimates, apportionment recommendations, and allotment and control of funds.

(2) STATISTICS BRANCH - Responsible for developing and compiling statistics, and analyzing program trends and results.

(D) BUSINESS SERVICES DIVISION - Responsible for the administration of Farmers Home Administration business services, including rules and regulations, forms control, organization, management improvement, property and space management, travel authorizations, and communications and records management. Develops and recommends policies and procedures with respect to such activities. Provides technical and assistance to field personnel.

(1) RULES AND REGULATIONS BRANCH - Responsible for the Farmers Home Administration system of rules and regulations, forms control, organization, and the management improvement program, including employee suggestions and performance awards.

(2) PROPERTY AND SPACE MANAGEMENT BRANCH - Responsible for the procurement and control of space, supplies, and equipment.

(3) COMMUNICATIONS AND RECORDS MANAGEMENT BRANCH - Responsible for the Farmers Home Administration communications system and the custody, control, and disposition of files and records.

STATE OFFICE - Responsible to the Administrator and within established policies and delegated authorities, administers all activities of the Farmers Home Administration in one or more estates.

STATE ADVISORY BOARD - Serves in an advisory capacity to the State Director on all phases of the Farmers Home Administration program.

COUNTY OFFICE - Responsible to the State Director and, in accordance with established policies and procedures, administers all phases of the Farmers Home Administration program in one or more counties.

COUNTY COMMITTEE - Reviews applications for all types of Farmers Home Administration loans and settlement actions, certifies to the value of Farm Ownership farms, and advises on all phases of the Farmers Home Administration program in the County.

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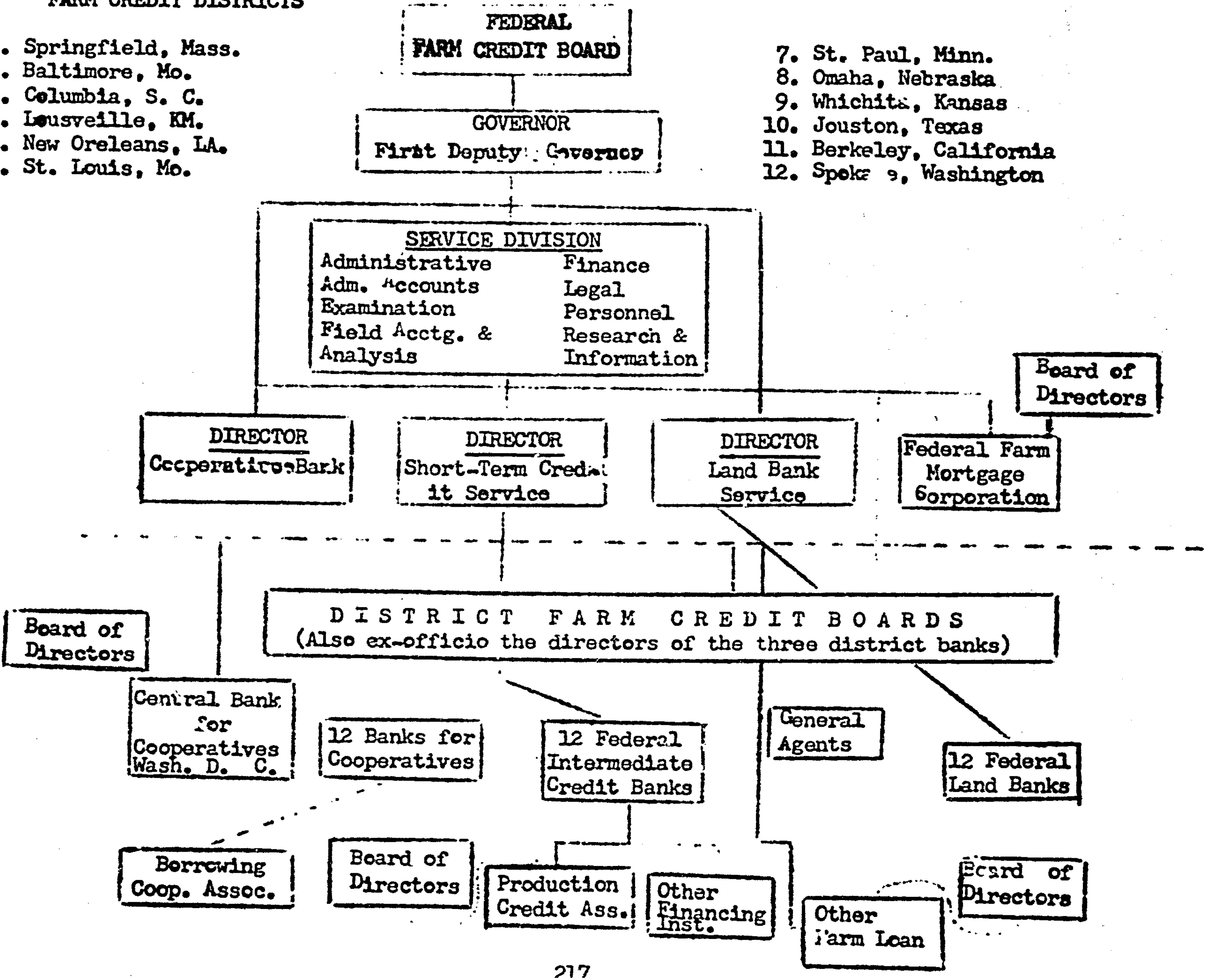
THE FEDERAL FARM CREDIT SYSTEM

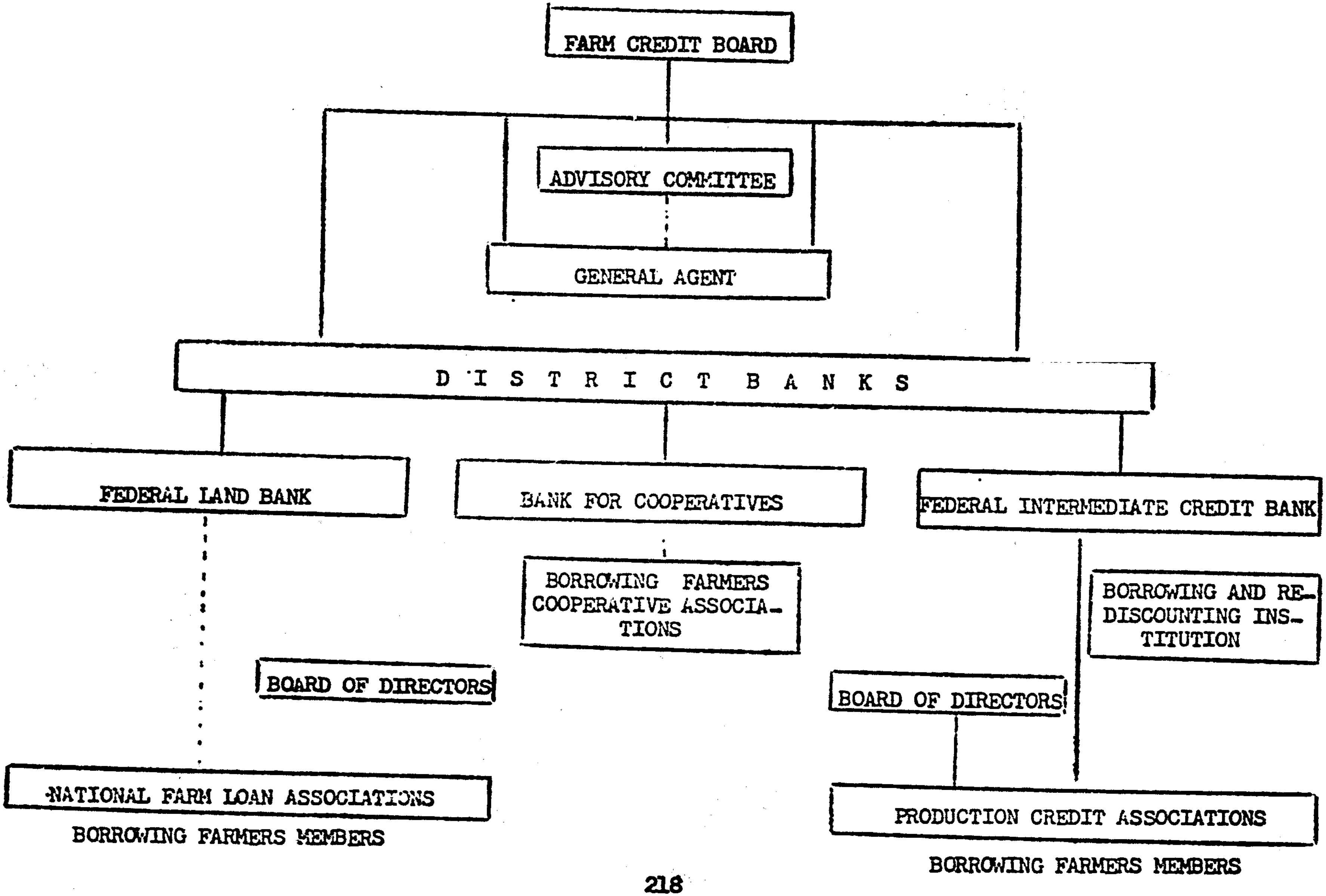
Appendix "D"

FARM CREDIT DISTRICTS

1. Springfield, Mass.
2. Baltimore, Mo.
3. Columbia, S. C.
4. Lousveille, KM.
5. New Oreleans, LA.
6. St. Louis, Mo.
7. St. Paul, Minn.
8. Omaha, Nebraska
9. Whichita, Kansas
10. Jouston, Texas
11. Berkeley, California
12. Spokane, Washington



ORGANIZATION
OF A
FARM CREDIT DISTRICT


FARM CREDIT BOARD
ADVISORY COMMITTEE
GENERAL AGENT
DISTRICT BANKS
FEDERAL LAND BANK
BANK FOR COOPERATIVES
FEDERAL INTERMEDIATE CREDIT BANK
BORROWING FARMERS COOPERATIVE ASSOCIATIONS
BORROWING AND REDISCOUNTING INSTITUTION
BOARD OF DIRECTORS
BOARD OF DIRECTORS
NATIONAL FARM LOAN ASSOCIATIONS
BORROWING FARMERS MEMBERS
PRODUCTION CREDIT ASSOCIATIONS
BORROWING FARMERS MEMBERS

FARM CREDIT ADMINISTRATION ORGANIZATION CHART AND FUNCTIONS OF PERSONNEL

FEDERAL FARM CREDIT BOARD

This consists of 13 members - 12 appointed by the President with confirmation of the Senate and 1 appointed by the Secretary of Agriculture.

Subject to approval of the President, appoints the Governor of the Farm Credit Administration, adopts broad general policies, and exercises general direction and supervision over the performance of all functions, powers, and duties vested in the Governor on matters of broad and general supervisory, advisory, or policy in nature.

(A) ADVISORY COMMITTEE

This consists of the presidents of the three banks and the general agent who is the chairman. Advises on joint problems arising in the district and recommends actions; assists the farm credit board and the general agent in coordinating the work of the three banks.

(B) GENERAL AGENT

Coordinates policies and operations of the banks; and maintains a service staff which typically provides them with legal, research, personnel and information services. Performs such other duties as may be assigned to him by the Farm Credit Board.

GOVERNOR

As Chief Executive Officer, appoints necessary personnel and carries out orders and directions of the Federal Farm Credit Board and all other functions, powers, and duties vested in the Farm Credit Administration.

CREDIT SERVICES

(A) LAND BANK SERVICE

Supervises 12 Federal land banks which make long term farm mortgage loans, and the national farm loan associations through which members obtain such loans; establishes standards for farm appraisals and through field appraisers make appraisals of farms offered as security for loans; assists in the planning for issuance and marketing of consolidated farm loan bonds.

(B) SHORT-TERM CREDIT SERVICE

Supervises 12 Federal intermediate credit banks which extend credit to production and credit associations and other financing institutions which make short-term agricultural loans; supervises 12 production credit corporations which in turn supervise, and capitalize when necessary, local production credit associations.

(C) COOPERATIVE BANK SERVICE

Supervises the 12 district banks for cooperatives and the central bank for cooperatives which makes loans to farmers' cooperative associations. Handles matters relating to the Agricultural Marketing Act revolving fund.

ERVICE DIVISIONS

(A) RESEARCH AND INFORMATION DIVISION

Conducts and coordinates credit research to aid operations and policy formation, prepares and disseminates informational and educational material; advises with Farm Credit districts on research, information, and membership relations problems.

(B) FINANCE DIVISION

Handles financing and investment transactions for the banks and corporations supervised by the Farm Credit Administration. Supervises and formulates policies and procedures governing the operations of the offices of the 12 Farm Loan Registrars who have custody of the collateral for bonds and debentures. Advises Farm Credit Administration officials on financing and investment programs.

(C) FIELD ACCOUNTING AND ANALYSIS DIVISION

Formulates accounting and reporting policies for the institutions supervised by the Farm Credit Administration and implements such policies by prescribing uniform charts of accounts and reporting requirements; compiles financial and statistical reports; analyzes the financial condition, earnings, and selected operations of the institutions for Administration officials.

(D) ADMINISTRATIVE ACCOUNTS DIVISION

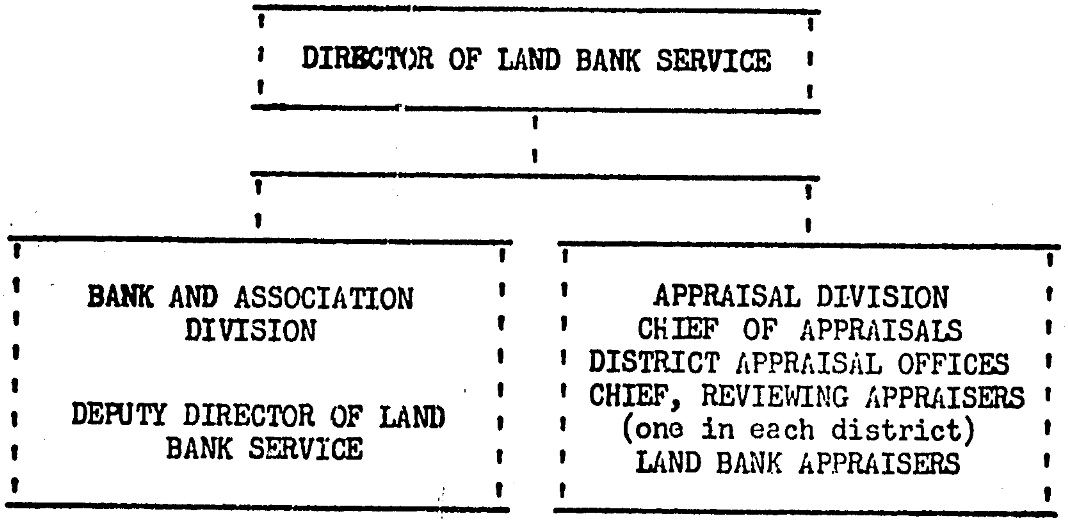
Maintains the administrative accounts of the Farm Credit Administration; examines and certifies for payment all documents chargeable to appropriated or assessed funds; develops budget estimates for the Farm Credit Administration and the wholly-owned Government banks and corporations supervised by it; maintains budgetary control of applied funds and assessments.

(E) ADMINISTRATIVE DIVISION

Handles general administrative matters; revises and issues instructions and manuals; and provides graphic duplicating, mail, purchasing, filing, stenographic and typing services.

(F) PERSONNEL DIVISION

Advises on personnel policies and procedures; administers Farm Credit Administration personnel programs; responsible for supervising and coordinating the administration of personnel programs in the Farm Credit Districts.


DIRECTOR OF LAND BANK SERVICE
BANK AND ASSOCIATION DIVISION
DEPUTY DIRECTOR OF LAND BANK SERVICE
APPRAISAL DIVISION
CHIEF OF APPRAISALS
DISTRICT APPRAISAL OFFICES
CHIEF, REVIEWING APPRAISERS
(one in each district)
LAND BANK APPRAISERS

DIRECTOR OF LAND BANK SERVICE

Is responsible for the supervision and coordination of the activities and operations of the Federal land banks and national farm loan associations, and for the execution of broad national policies for the guidance of the boards of directors and officers of these institutions. Administers the appraisal programs and activities of the land bank system, and establishes policies relative to the basis for appraisals and the review of loans pledged as collateral for farm loan bonds. Attends hearings on proposed legislation affecting the land bank system and recommends legislation for the improvement of the system. Serves as a director of the Federal Farm Mortgage Corporation and administers the liquidation of Commissioner loans. As a member of the Governor's immediate staff, participates in the consideration and coordination of policies and programs affecting the activities and operations of the Farm Credit Administration and of the institutions making up the Farm Credit System.

BANK AND ASSOCIATION DIVISION

(A) DEPUTY DIRECTOR OF LAND BANK SERVICE

Executes national policies and exercises supervisory authorities of the Director with respect to operating, lending and credit servicing activities of the Federal land banks and national farm loan associations, including policies and procedures affecting the making of loans, servicing of loans and real estate, and the corporate activities of the associations. Through administrative review of examination, financial and operating reports, keeps currently informed of bank and association activities and makes recommendations or takes action necessary with respect thereto. Observes and studies trends in agriculture affecting local and national credit needs, assists the banks in planning programs to meet these needs, advises with officers and directors of the banks regarding activities designed to improve the effectiveness of the bank and association programs, and directs and coordinates the analysis of credit service and loan practices and policies of the banks and associations. Assists in arranging for national conferences of bank officers and directs preparation of material for use at such conferences. Assembles information and prepares correspondence relating to inquiries of members of Congress, government officials and the general public. Serves in the absence of the Director with full responsibility.

APPRAISAL DIVISION

(A) CHIEF OF APPRAISALS

Executes national policies and exercises the supervisory authorities of the Director with respect to the appraisal and engineering activities of the land bank system. Supervises and coordinates area classification and other field appraisal studies, and studies of appraisal standards and makes adjustments where needed. Supervises and coordinates appraisal engineering activities of the land banks system and establishes technical standards and principles to be followed in filed engineering investigations. Keep informed of major agricultural policies and research findings having a bearing on appraisal work. Coordinates the selection, appointment and training of appraisers, reviews reports of performance, and conducts analyses of the application of appraisal policies and standards in the field and quality of appraisal work performed. Responsible for the review of loans pledged by the banks as collateral for farm loan bonds and subsequent release of security.

(B) DISTRICT APPRAISAL OFFICES - CHIEF REVIEWING APPRAISERS (One in each district)

Directs and supervises the district appraisal staff; selects, trains, assigns, reviews and rates the work of land bank appraisers. Assists in the development of general appraisal policies and standards and adapts them to appraisal work in the district. Directs area classification and other appraisal study activities; keeps informed on agricultural developments having an effect on appraisals in the district; approves applications for loans requiring prior approval, reviews closed loans, approves loans pledged as collateral for farm loan bonds, reports on the quality of loans pledged, and the effect of subsequent releases of security.

(C) LAND BANK APPRAISER

Land Bank Appraisers in each farm credit district make appraisals for new loans and partial release; appraise security for distressed loans and real estate owned by the bank; gather crop production and sales data for their areas; and make appraisal standards studies.

DISTRICT BANKS

(A) FEDERAL LAND BANK

Makes long-term amortized first mortgage loans on farms and ranches, which loans are made through and endorsed by national farm loan associations; obtains funds for loans principally through sales of consolidated Federal land banks, secured by their own assets, and not in any way guaranteed by the Government; recommends granting of charters to national farm loan associations by Farm Credit Administration; cooperates with associations in servicing loans and in servicing and disposing of land acquired by the bank in liquidation of loans.

1. Board of Directors

Elected by and from membership; adopts policies, elects officers, and directs affairs of association.

2. National Farm Loan Associations

Operating under boards of directors elected by their members, accept applications for Federal land bank loans and make recommendations with respect thereto, endorsing and becoming liable for loans made to members of the association; each member purchases stock in the association to the extent of 5 percent of the amount of the loan granted by the bank. Each member of the association has one vote. To extent authorized by Federal land bank, disburses loan proceeds, performs services in connection with bank's loans including collection of amounts due from borrowers, acting upon extensions, reamortizations, releases of security and other arrangements relating to loans, handling tax and insurance transactions, servicing real estate acquired by the bank in liquidation of loans, including the leasing thereof.

3. Borrowing Farmer Members

(B) BANK FOR COOPERATIVES

Makes loans to eligible farmers' cooperative associations engaged in marketing, processing, and handling farm products, purchasing farm supplies, or rendering farm business services. Loans are made to finance physical facilities, working capital needs, and commodities. In addition to funds provided by capital stock subscriptions (Class A) by the Governor of the Farm Credit Administration and farmer cooperative associations (Class C and Class B stock) and from earned net worth, loanable funds are obtained principally through sales of consolidated collateral trust debentures, which are not guaranteed by the Government, by borrowing from other banks for cooperatives and commercial banks, and by rediscounting with and borrowing from Federal intermediate credit banks.

1. Borrowing Farmers Cooperative Associations

(Each association is required to invest in Class C stock of the bank for cooperatives and receives additional Class C stock in payment of patronage refunds distributed by the bank.)

(C) FEDERAL INTERMEDIATE CREDIT BANK

Discounts short and intermediate term loans of farmers and ranchers offered to it by and with the endorsement of production credit associations and other financing institutions including state and national banks; makes loans to such institutions on the security of collateral approved by the Governor; obtains funds for loans principally through sales of consolidated collateral trust debentures of the 12 Federal intermediate credit banks, which are not guaranteed by the Government.

Supervises and assists production credit associations in establishing and carrying out fiscal, financial and credit policies and practices to enable them to provide a sound dependable and effective credit service at the lowest cost consistent with sound business operations.

1. Borrowing and Rediscounting Institutions other than Production Credit Associations

2. Board of Directors

Elected by and from membership; adopts policies, elects officers, and directs affairs of association.

3. Production Credit Associations

Operating under boards of directors elected by member stockholders, make short and intermediate term loans to farmers and ranchers. Each borrower must own voting stock equal to at least 5% of his loan. Each member of the association has one vote. Loans are made by associations without other approval except loans to directors and officers and loans exceeding 15% of capital and surplus.

Associations obtain loan funds by rediscounting with borrowing from Federal intermediate credit banks. Each association is required to invest in Class B stock of credit bank, and will receive additional Class B stock of credit bank, and will receive additional Class B stock in payment of patronage refunds distributed by the bank.

4. Borrowing Farmer Members

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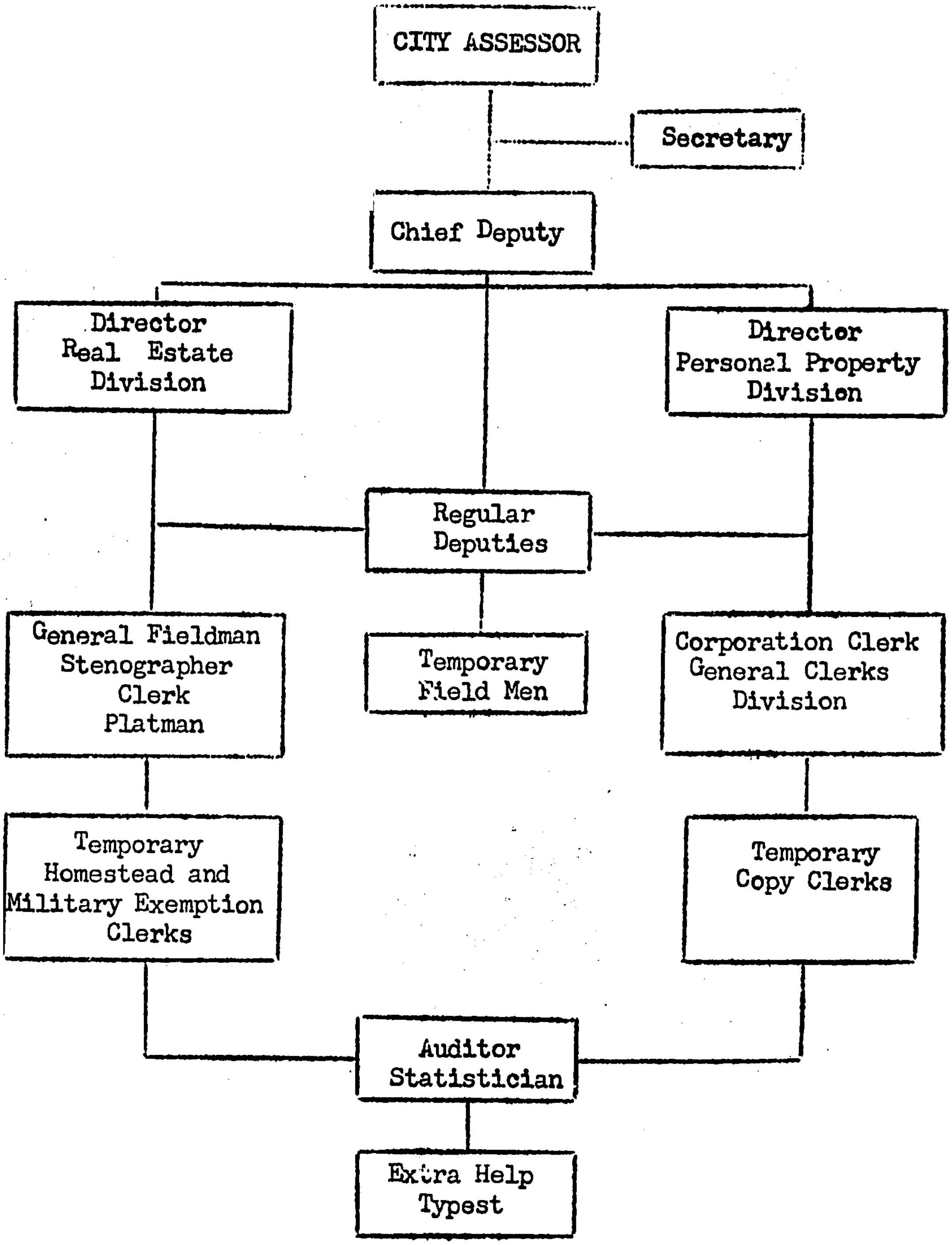
Appendix No. E

ORGANIZATION CHART FOR MODERN ASSESSOR'S OFFICE

(As used in Des Moines, Lowa)


CITY ASSESSOR
Secretary
Chief Deputy
Director Real Estate Division
Director Personal Property Division
Regular Deputies
General Fieldman Stenographer Clerk Platman
Temporary Field Men
Corporation Clerk General Clerks Division
Temporary Homestead and Military Exemption Clerks
Temporary Copy Clerks
Auditor Statistician
Extra Help Typest

ASSESSMENT ORGANIZATION AND PRACTICES IN GENERAL

(A) ASSESSOR AND HIS OFFICE

Whether the assessor performs a good job or a bad one depends upon his education, training, and experience. He must be enthusiastic, energetic, and able to apply good, sound judgment. At no time can he lose sight of the fact that he is the assessor and that it is his duty to determine the assessment of all taxable property in his jurisdiction. He must have the fortitude to resist any attempt by the taxpayer to fix his own values. Yet he must be able to explain his methods and procedures in such a way that the taxpayer understands how he has arrived at the assessment. In this way he will gain the confidence of the taxpayer without whose cooperation he is doomed to failure in his all-important task.

An assessor must be a good judge of character and behavior and be able to select a staff which will not only be efficient, but will be loyal to him and his policies. He too must have faith in and be loyal to his employees. Most authorities believe that the best assessing administration will result where assessors are appointed with a tenure of office which will offer reasonable security in the job after having qualified by examination by an impartial agency.

In-service training is recommended as a means of additional experience and education in the work. This plan has been in use for a number of years but recently has grown in popularity as experience has shown the great benefits to be had through it.

The personnel in the assessing office must be familiar with the "appraising task" together with the laws governing it. The office staff is the assessor's "advance guard" for they deal with a great many taxpayers, answering questions and explaining assessments. Out in the field they are expected to be a combination of diplomat, salesman, lawyer, and accountant, and to have a working knowledge of every type of business.

The contact with other assessors and the opportunity to hear discussion on special problems which are offered by the state associations and the National Association of Assessing Officers is very helpful, and membership in these organizations is recommended.

(B) SIZE OF JURISDICTIONS

Capable assessors are not willing to undertake training and become experts in the assessing field on a part-time basis. The National Association of Assessing Officers, therefore, recommends that the local assessment district be large enough so that it can provide for the employment of one full-time assessor and at least one assistant as a minimum.

Understandably the organization of large and small assessing offices will differ. In larger jurisdictions the organization is usually along functional lines. There may be a personal property division responsible solely for assessments of this type of property, and a real estate division which may be divided into (1) land and (2) building valuation departments. Through these divisions the office is able to develop and utilize specialized knowledge and skills.

It is highly desirable that all personnel in the assessing office be qualified for the work and the remuneration be paid accordingly. The chief assessor under whom the staff is working should make every effort to see that adequate compensation is provided; this will furnish incentive for greater progress in the work and more diligent study and effort toward professionalizing the assessment function.

(C) SCIENTIFIC APPROACH TO ASSESSMENT PROBLEMS

Appraisal is an opinion of value and is dependent upon the human element. It is not an exact science and, therefore, perfection cannot and should not be expected. However, unless the assessor gives consideration to all the factors affecting the value of property, he cannot achieve even a reasonable equality. A practical, scientific approach to assessment problems involves the use of known and proven methods, and basing value on sound market and construction cost data. These methods are:

1. Use of formulas
2. Knowledge of replacement costs
3. Depreciation
4. Location and neighborhood factors
5. Study of economic trends
6. The use of square foot, cubic foot, and front foot values

7. Processes involved in capitalization of income
8. Consideration of all sales of comparable properties

and any other factors that may affect the value of property. The assessor must get the facts and know how to apply and analyze the various methods. If he can balance theory and sound judgment, he will achieve a good assessment.

(D) RECORDS AND EQUIPMENT

Adequate records and equipment are vital in good assessment practice. These include:

1. Tax and land value maps
2. Soil maps
3. Zoning maps
4. Aerial photos
5. Sewer and water district maps
6. Plat books
7. Sales and mortgage records
8. Costs and depreciation schedules
9. Appraisal cards
10. Costs manuals
11. Adding machines
12. Typewriters
13. Calculators

All records must be kept current and all equipment properly maintained. An office that presents a good appearance indicates a business-like operation to the public.

(E) PUBLIC RELATIONS

One of the most important aspects of the assessing function is that of public relations. The confidence and friendship of the tax-paying public is necessary to the success of the assessing office. Today taxpayers are being burdened with an increasing local tax load, and in order to maintain a friendly relationship with the public it is necessary that the assessing personnel listen courteously to the questions asked and then explain in simple language the matter involved. Even though the assessment of property specifically the only duty of the office, it is often necessary to make a patient explanation of the reason for the higher tax about which complaining is usually made.

Many taxpayers' only contact with the office is with the homes. If these employees are courteous and friendly, the taxpayer will usually respond in like manner. The employee should know whether he can answer a question correctly. If not, the matter should be referred to someone who can. It is better to admit lack of knowledge than to evade the question.

Whenever an employee is certain that he is in possession of the facts, he should assist taxpayers by informing them of their rights, privileges, etc. If he is not certain about the information requested, he should make sure that the taxpayer is directed to the proper source to obtain. Employees have a duty to the public as well as to the taxing bodies.

There are many other ways of promoting good will and furnishing information. Annual reports and informative booklets may be distributed to the public. Radio and television programs furnish means of communication, and interviews can be arranged during which some particular assessment problem or assessment matters in general may be discussed. It should be kept in mind that every letter going out of an office has a bearing on public opinion. All correspondence should be courteous, clear, and concise, and should furnish the information needed.

Training in public speaking is helpful to assessment personnel. Appearances before civic clubs, schools, service organizations, etc., tend to diffuse knowledge and promote in the public respect and confidence for the work of the office. If correctly handled, any information which reaches the public about the work of the assessing organization will pay dividends.

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Appendix "F"

FARMERS HOME ADMINISTRATION APPRAISAL REPORT

Applicant's Name John Reeves, Jr. State Arkansas

Address England, Ark, Star Route County Jefferson

Vendor's Name Niven Estate

Part 1 - General Information

A. Location of Farm:

How many miles from the nearest town? 4

In what direction? South West

Name of Town? Tucker

Name of School? Tucker

How many miles from nearest church? 1

Name of Church? Community Church

B. Roads and Community:

In what condition are roads in community? Gravel

On what kind of road is Farm? Gravel

No. of miles to nearest hard surface road? 4

Has vendor right of way to Farm? Yes

The Farming District is (E, G, F, or P) Fair

What type of farming is in community? Cotton and Beans

Are there tenant-operated farms in community? Many

C. Farm Services: (Check)

x R. F. D. Phone x Power Line Milk Route

Indicate availability of elevators, gins marketing facilities: - Gin at Tucker, Market at Tucker

D. Condition and Occupancy of Farm:

This farm as compared with the average of the community is, with respect to:

Location	x	Average	Better	Poorer
Desirability	x	"	"	"
Salability	x	"	"	"
Rentability	x	"	"	"

Noxious weeds (kind and percent of infestation Coffee beans at the northwest side of Mr. Peeves, 1% of area and Johnson grass in the land he intends to purchase; 1%

Farm is now occupied by Owner

Farm is leased to

Date lease expires

Is lease in writing?

On what basis is annual rent? (share, cash, shares, and/or quantity of product)

Estimated cash rent at current prices

E. Condition of Land:

How is the apparent general fertility? (E, G, F, or P) F to G

Acres: Terraced ; Leveled 100 ; Contouring

Acres Needing: Terracing ; Leveling ; Contouring

Drainage: (Acres) Tile ; Open Ditch 60

Natural 40 ; Needing Drainage 20

Name of Drainage or Reclamation District Waterloo Drainage

Irrigation: Acre Irrigated None ; Name of Irrigation District

F. Natural Resources: None of any economic value.

G. Water:

	Farmstead		
	Family Use	Livestock	Pasture
Source	Well	Elec. Pump	None
Depth of Well	96'	30'	
Convenience	OK	OK	
Adequacy	OK	OK	
Dependability	OK	OK	
Quality	Poor		

H. Farming Hazards: (Check if present)

Overflow	Hail	Untimely Freezes	Crop Diseases
Hardpan	Alkali	Wind Erosion	Drought
Water Erosion	Insect Pests	Gravel (Droughty)	Subsoil

Other (specify)

Discuss Hazards Checked: Indicate extent and frequency

No unusual hazards

I. Ownership History:

Year Acquired by Applicant 1945

How Acquired Purchased

Purchase Price $5,000

Number Times Farm has Changed Ownership during the past 10 years:

Discuss Vendor has owned the tract under option to purchase for long period of time.

J. Taxes:

Assessed Value $1,360

Assessed on what percent of value 20%

Real Estate Taxes for 1956 $66.64

Mill Levy 50

Special Improvement District Taxes $68.38

Delinquencies, if any None

K. Suitability for Production of Family Subsistence and Supplies:

Adequate amount of land suited to the production of crops for family living.

Part 2 - Land and Buildings

The buildings considered in this appraisal are described in Farm Development Plan and Valuation of Buildings Forms. The land improvements considered are also described in the "Farm Development Plan" Form.

Comments on adequacy and appropriateness of buildings taking into consideration plans for building construction or repair as shown in "Farm Development Plan" Form.

The farm is at present will a house, constructed in 1938 by former owner but has been repaired and maintained by present owner. A barn constructed in same year is now needing repair, had a galvanized iron roofing. An old poultry house and storehouse, also needing attention are present on the farm.

Comments on condition of land taking into consideration plans for land improvements on "Farm Development Plan" Form:

The soil found on the land varies from the desirable fine sandy loam to silty loam, and silty clay to clay both in the land of Mr. Reeves and the land under option. Approximately, 20 acres of the land needs additional drainage. The pasture is well-established to Bermuda grass and clover.

Part 3 - Crops: Production and Sales

Crops	Acres	Yield Per Acre	Total Production			Amount Used for Farm and Home			S a l e s		Landlord's Share	
			Amount	Price Per Unit	Value $	Seed	Food	Feed	Amount	Value $	Percent	Value $
Cotton	28	400 #	11200 #	.15	1680.00				11200 #	1680.00	25	420.00
Cotton Seed	(28)	800 #	22400 #	.019	425.60	100 #			21400 #	406.60	25	101.65
Oats	35	50 Bu.	1750 Bu.	.60	1050.00	120 Bu.		30 Bu.	1600 Bu.	960.00	25	240.00
Soy Beans	16	14 Bu.	244 Bu.	1.25	305.00			30 Bu.	214 Bu.	267.50	25	66.88
Corn	6	35 Bu.	210 Bu.	1.00	210.00			210 Bu.			33-1/3	69.93
Hay	(5)	1T	5T	12.00	60.00			5T				
Permanent Pasture	5	Aminal	Units									
Woodland	7											
Farmstead, Roads, Etc.	3											
Total	100				$3730.30					$3314.10		$898.36

Part 4 - Livestock: Production and Sales

Find of Livestock Product	Number of Animals	Unit of Production	Production Per Animal	Total Production	Farm Use	Home Use	Sales		
							Amount	Price	Value
Dairy Cattle	2	For Home Use							
Broad Sow	2	Pigs	6	12	2		10	$25	$250
Hens	20	Doz.	For Home Use						
Total									$250

Part 5 - Net Farm Income

	Owner-Operator	Landlord's Share
Income:		
Crop Sales	$3314.10	$898.00
Livestock and livestock product sales	250.00	-.-
Total Cash Farm Product Income	3564.00	898.00
Expenses:		
Seed	115.80	-.-
Fertilizer	389.60	99.65
Spray material	88.50	22.13
Threshing, combining, and ginning	151.22	82.41
Hired labor	464.00	-.-
Feed purchase	50.00	-.-
Miscellaneous livestock expense	18.50	-.-
Machinery depreciation expense	182.70	-.-
Tractor depreciation, expense and hire	251.00	-.-
Auto and truck expense, farm use	150.00	-.-
Buildings and improvements, repairs and depreciation	63.90	63.90
Taxes, real estate	132.02	132.02
Taxes and insurance, personal property	30.00	-.-
Insurance, buildings $2130 @ 1/$100	21.30	21.30
Interest, operating capital, $3500 @5%	175.00	-.-
Irrigation: No irrigation fee involved	-.-	-.-
Total Expenses	$2285.14	$422.10
Net Farm Income	$1278.86	$575.90

Part 6 - Normal Market Value of Land

Class of Cropland	Acres	Soil Type	Depth of Topsoil	Kind of Subsoil	Topography	Value	
						Per Acre	Total
Cropland	20	VFSL-Silt	8-12"	Sandy Clay	Level to S. Rolling	$70	$1400
	20	Silty Clay	6-10"	Yellowish Clay	Level	55	1100
	45	Clay	5-6"	Gray Clay	Level	40	1800
Total Cr. Land	85	-.-	-.-	-.-	-.-	-.-	-.-
Permanent Pasture	5	Silty Clay	5-6"	Gray Clay	Level	35	175
Woodland	7	Clay	5-6"	Gray Clay	Level	8	56
Farmstead	3	-.-	-.-	-.-	-.-	-.-	-.-
Total	100	-.-	-.-	-.-	-.-	-.-	$4501

Part 7 - Values Recommended

Table A - Family-Type Farm Ownership Units

Net Farm Income to Owner-Operator	$1278
Cash family living expense	$ 875
Net farm income available for payment on real estate loan(s)	$ 403
Normal Earning Capacity Value	$6500
Normal market value of 40 acres to be purchased	$1440

Table B – Other than Family-Type Ownership Units

Net income to owner-operator ------------------------ $ ____

Cash family living expense -------------------------- $ ____

Net market value of farm as improved ---------------- $ ____

Present market value of farm as improved ------------ $ ____

Comments on off-farm employment opportunities in the area:

Part 8 – Comments

This is a fairly desirable family-type farm. It is fairly well located with reference to roads and community services. The soil varies from a desirable type of Very Fine Sandy Loan to very heavy Clay with fair to good fertility.

Date inspected: February 28, 1957

Date this report prepared: March 1, 1957

(Signed) JUVENAL R. RAGUINI

NEC-ICA Appraiser Trainee
(Title)

United States Department of Agriculture
FARMERS HOME ADMINISTRATION

Case No.

VALUATION OF BUILDINGS

Full Name of Borrower(s) JOHN REEVES, Jr.	Mailing Address Star Route #2

Property Situated on 100 Acres	About 2 Miles	Direction Southwest	in Jefferson County	State of Arkansas

Kind of Building	Year Built	Construction	Kind of Roof	Kind of Foundation	Size			Condition of Building	Depreciation Value	
					Length and Width	Stories	No. Rooms		As is	As improved
Dwelling	1938	F	WS	CP	38 x 22'	1	5	F	$3000	$3000
Barn	1938	P	M	CP	40 x 22'	2	-.-	P	475	475
P. House	1938	F	RR	CP	12 x 14'	1	-.-	P	75	75
S. House	1938	F	M	MP	10 x 12'	1	-.-	P	-.-	-.-
Total									$3550	$3550

The following information to be furnished in a State or Territory where credits are given or charges are made customarily to the Board Rate for the items listed below:

All Buildings (Show Kind of Fuilding)

Approved lighting rods....................______
Certified lighting rods....................______
Exterior printed with last 5 years......______
Electric or gas lighting throughout.....______
Plumbing throughout.......................______

Dwellings

Central heating............______Yes.....______No
All rooms plastered on lath or sheathed with plaster, wallboard, tongue, and grove or wood panel..............______Yes.....______No
Approved spark arrester when roof is wooden............______

Tobacco Barns

Air-cured or when firing is done by salamanders using coke for fuel.............______Yes.....______No
Flue- or fire-cured (equipped with flue whether fire used or not)....______Yes.....______No

Heated by electricity......______Yes.....______No
No chimney or standard chimney..........______
Non-standard chimney.......______Yes.....______No
Number of stove-pipe connections........______
Telephone..................______Yes.....______No

Loan secured by

1st 2nd 3rd

MORTGAGE

Signed______________________________

______________ (Title) ______________ (Date)

Note: Appraisal Map not included.

Appendix "G"

FARM CREDIT ADMINISTRATION APPRAISAL*

APPRAISER'S REPORT TO THE Orangeburg N.F.L.A. and Federal Land Bank of Columbia. Appraiser's Initials ________

Application No. ________ Name Thomas Elliot Bonette $ unknown, application to be amended. I have made a personal examination of and identified the property described in above-numbered application.

A. LOCATION

1. State S.C. County Orangeburg Acres this tract 57 Total Acres 57.

2. Property is located 9 E From Orangeburg
(miles) (direction) (Town - Name)

3. on both sides Highway No. 4 The farm
(miles) (direction) (Federal) (State)

is located on paved state highway
(Kind & type of road)

4. The Applicant has a suitable right of way to the
(has) (has not)

farm. (If not, discuss in remarks.)

5. It is not in a special improvement district or incorporated town.
(is - is not)

Name of Town or District ________
(Prepare Supplement if necessary)

---

*Source: APPRAISAL OF APPRAISER by Robert Y. Park and the writer.

B. COMMUNITY, TYPE AND QUALITY OF FARM

1. The farm is in a class (x) x (1, 2, 3, 4, 5). It is a (x) x (A, B, C, D, E) farm. Conveniences are (x) x x x x (RFD, School Bus, Power Line, Telephone)

2. Describe water supply 3 wells - electric water system

3. The general condition of farm is (x) x (Excellent, Good, Fair, Poor)

As a farm unit it is (x) x (Excellent, Good, Fair, Poor)

4. As a comparison of this farm with the average in the area: -

Location Average ; Soils Average

5. Improvements average to above General desirability and salability average

6. It is x (Being Improved) (Being Maintained) (Depreciating)

7. Describe drainage, overflow, etc., Adequate natural and

8. open ditch for crops planted - no overflow hazards

9. Describe topography, terraces, erosion, etc., level to

10. gently rolling - no unfavorable topographic features

11. except for small eroded areas but not serious.

C. MINERAL AND WATER

1. Oil, gas, coal, mineral, timber, or other leases on this farm. Yes ( ) No (x)

2. Approximate amount and species of timber and normal value

3. Some scattered small pine over the property - not in com-

4. mercial quantities.

D. EARNING POWER OF FARM - ALL TRACTS

1. Under ordinary conditions and present developments this farm will
2. produce in the hands of a typical operator on this type property
3. the following crops based on past history of production and outlook
4. in the locality.

Crop	Present Use This Tract	Acres Typical Operator All Tracts	Average Yield Per Acre	Average Total Production	Unit Value (Normal Prices)	Total Value	Typical Owner's Cash Sales
5. Cotton	5	25	375#	9375#	.24	2250	1125
6. Cottonseed	--.--	--.--	--.--	8 tons	50.00	400	200
7. Garden	5	5	--.--	--.--	--.--	--.--	--.--
8. Grazing & Silage	170	266	Mostly corn and grain sorghum for silage-oats rye, and barley for grain feed.				
9. Crops	--.--	--.--	--.--	--.--	--.--	--.--	--.--
10. Forest Products	--.--	--.--	--.--	--.--	--.--	--.--	--.--
11. Pasture	95	95	--.--	--.--	--.--	--.--	--.--
12. Totals	275	275	--.--	--.--	--.--	--.--	1325

INCOME

1.	Cash Sales Crops	$1325
2.	Cattle No. Cull cows, calves	1000
3.	Hogs No	
4.	Dairy Products (Average No. Cows 75)	
5.	Volume of 7000#/cow @ 4.75/cwt.	
6.	Volume of 5250 cwt @ 4.75	24937
7.	Poultry No.	
8.	Eggs Doz.	
9.	Cash Rentals	
10.	Miscellaneous	
11.	Gross Income	27262
12.	Total Expenses	18780
13.	Net Return	8482
14.	Rentability of this farm is not to rent and usual rental terms are	

EXPENSES

15.	Labor	$6000
16.	Seeds, Plants, Trees	600
17.	Feed	4900
18.	Insecticide and Poison	200
19.	Fertilizer and Lime	3000
20.	Gas and Oil	1000
21.	O & M Cost Including Irrigation	
22.	Miscellaneous	500
23.	Taxes, Real and Personal	180
24.	Insurance on Buildings and Personal Property	200
25.	Annual B & I Payments for year	
26.	Upkeep on Improvements	250
27.	Repairs and Replacement Equipment	1500
28.	Interest on Short-Term Credit	450
29.	Total Expenses	18780

E. OUTSIDE INCOME

Estimated normal outside income of typical owner, less cost of producing it 0 . Describe sources available under normal conditions.

APPLICATION NO. HUGHES H. LAKE APPRAISER'S INITIALS ________
PURCHASE PRICE

1. Farm acquired 1955 by (purchase, inheritance, etc.) purchase stock, equip-
2. ment and land for 43,000. Applicant estimates value of land at time of
3. purchase to have been from $25,000 to $30,000. Price $________
4. Subsequent Improvements Built silo, put up fencing, put down two wells,
5. general improvement to property in state of cultivation-sodded pastures
6. to coastal bermuda. Cost $ 7,000 - 10,000
7. Subsequent Depreciations ________ Value $________

F. BUILDINGS AND IMPROVEMENTS - DESCRIPTION AND VALUATION

Description of Buildings	No. on Plat	No. Stories	No. Room	Occupied By	Length and Width	Material	Type of Roof	Condition	Value Insurable Bldgs.
Dwelling	(1)	1	7 & B	A	48 x 40 - 30 x 22	F	CS	Good	11000
Storage	(2)	1	-.-	-.-	20 x 48	F	M	Fair	800
Storage	(3)	1	-.-	-.-	18 x 30	F	M	Fair	400
Silo	(4)	1	150	Ton	Capacity	- Concrete -		Good	11000
Barn & Loafing	(5)	1	-.-	-.-	20 x 32 - 1924 sq.ft. shed	F	M	Fair	600
Dairy Barn	(6)	1	-.-	-.-	25 x 60 - 20 Stantions	Con Block	M	F - G	2250
Storage	(7)	1	-.-	-.-	18 x 30	F	M	Fair	300
Storage	(8)	1	-.-	-.-	16 x 28 (concrete floor)	F	M	Fair	3000
T-House	(9)	1	5	T	24 x 24 - 8 x 10	F	M	Fair	400
T-House	(10)	1	5	T	24 x 28 - 10 x 10	F	CR	Fair	300
T-House	(11)	1	3	T	24 x 24	F	M	Fair	250
T-House	(12)	1	5	T	30 x 34	F	CR	F - P	200
T-House	(13)	1	5	Hall T	42 x 40 - 22 x 24	F	M	Fair	500
Total									18350

1. Discuss Adequacy of Farm Improvements: The main dwelling is a very nicely finished farm home on the inside with plastered and painted walls - modern bath. This house looks better on the inside than on the outside. The outbuildings are fair and adequate. There is an additional silo, not listed above, on the property but it is not paid for and is covered by a mechanics lien. The buildings are adequate and appropriate.

G. DESCRIPTION AND VALUATION OF LAND

Present Use	Type and Quality of Soils; Topography, Crop Adaptability; Ease and Economy of Operation; Condition; Drainage; Erosion; Noxious Weeds; Any Important Features	Acres	Acres	Total Value
Cultivated	Norfolk & Rustin FSL, grading into a small amount of deep phase SL and Loam sandy-Dunbar SL-Portsmouth SL	100	75	7500
Cult. & Pasture	Good state of cultivated - well fenced and crossed fenced	100	55	5500
Cult. & Pasture	Good coastal bermuda, common bermuda, and clover pastures	40	40	1600
Cult. & Pasture	Good for general crops	35	25	875
Woods	Mostly hard woods along branches, some scattered pines	50	7	350
Waste	Roads, ditches, highway and railroad r/w	15.73	No Value	

Total Acres and Total Normal Agricultural Value of Land: 340.73 .... $ 15825
Consideration has been given to total taxes, O & M and B & L charges of ..... $ x
per acre and project liability of $______ against this land.

H. VALUATION OF SECURITY OFFERED

1. Present market value of farm (tract 1) $ 41,000 NAV of tract 1 $ 28,500
2. Normal agricultural value of tract 1 $ 28,500 Tract 2 $ 6000
3. Present market value of farm (all tracts) $ 49,500 Tract 3 $ ____
4. Normal market value of farm (all tracts) $ 34,500 Total NAV of all Tracts $ 34,500
5. ____ Legal Loan Limit $ 22,425
6. Explain reasons for any material variation between NAV and NMV ____
7. ____
8. In my opinion the property offered in this application is (is - is not)
9. satisfactory security for a land bank loan scheduled to be
10. repaid in not to exceed x years. If term of years limited, give reasons ____
11. ____
12. ____
13. ____

APPRAISER'S TRACT REPORT

Land Plat - Not Included

REMARKS: Summarize with brevity your appraisal. Explain fully each point which is reported on unfavorably, or which appears unusual.

1. These are two fair tracts that would normally be operated in
2. conjunction with the main tract of this farm or other farms in
3. the community. The soils are fair producing types - fair for
4. general crops. The plats submitted do not show sufficient in-
5. formation and are apparently not drawn to exact scale. There
6. is not enough information furnished to make a correct plat so
7. the boundaries shown on the above map are only approximate and
8. according to lines pointed out by the applicant, some of which
9. he was not sure of himself. Should a correct plat show any
10. significant difference in acreage or boundary, this report
11. should be referred to the appraiser for adjustment or correc-
12. tion.

Any shortage in the acreage of this tract that may be developed upon examination of the title and certification of the plat which does not exceed 5 per cent of the total acreage shown in my report and which is not caused by the exclusion of a specified part of the property will not affect my estimates of total land value and normal agricultural value.

I certify that the foregoing is true and correct to the best of my knowledge.

Date Appraised March 13, 1957
Date Report Completed March 13, 1957

ROBERT Y. PARK

JUVENAL R. RAGUINI

Appendix "H"

SOIL RATING BASE PRICING SCHEDULE
For
POLK COUNTY, IOWA

C.S.R.	BASE VALUE PER ACRE BY 40's	C.S.R.	BASE VALUE PER ACRE BY 40's
1.5	117	5.0	45
1.6	116	5.1	44
1.7	113	5.2	43
1.8	111	5.3	42
1.9	108	5.4	41
2.0	105	5.5	40
2.1	103	5.6	38
2.2	100	5.7	37
2.3	97	5.8	36
2.4	94	5.9	35
2.5	92	6.0	34
2.6	89	6.2	33
2.7	86	6.4	31
2.8	84	6.5	29
2.9	82	6.6	28
3.0	79	6.8	26
3.1	77	7.0	25
3.2	74	7.2	24
3.3	72	7.4	23
3.4	70	7.5	22
3.5	68	7.6	19
3.6	66	7.8	17

C.S.R.	YIELD
1	60
2	55
3	50
4	45
5	40
6	35
7	30
8	25
9	20
10	None

ADJUSTMENTS

LOCATION - FARMSTEAD
TO MARKET

COMMUNITY

HAZARD ADJUSTMENTS
ON 40 ACRES ONLY

PHYSICAL FEATURES
ON 40 ACRES ONLY

GENERAL EFFICIENCY
ON ENTIRE FARM

CHURCH AND SCHOOL
NEIGHBOR NUISANCES
FARMSTEAD ON HARD-
SURFACED ROADS

FARMSTEAD ON PAVING

C.S.R.	Base Value Per Acre	C.S.R.	Base Value Per Acre
3.7	64	8.0	16
3.8	62	8.2	15
3.9	60	8.4	14
4.0	59	8.5	13
4.1	58	8.6	11
4.2	57	8.8	10
4.3	55	9.0	9
4.4	53	9.2	8
4.5	52	9.4	7
4.6	50	9.6	6
4.7	49	9.8	5
4.8	48	10.0	4
4.9	46		

Adjustments

TOPOGRAPHY ON ENTIRE FARM

DRAINAGE ADJUSTMENTS ON 40 ACRES ONLY

MOST TOTAL ADJUSTMENTS SHOULD FALL BETWEEN 2 AND 1

MAXIMUM BUILDING VALUES ALLOWABLE FOR TYPICAL FARM ACCORDING TO GRADE OF FARM

Grade of Farm	A	B	C	D	E
Per Acre Maximum Allowance	42	39	36	33	31

To be used only as a basic price guide. Adjustments based on observations and facts may be used to increase or diminish these prices according to judgment of the assessor.

MAXIMUM OVER-ALLOWANCE FOR LUXURY HOME OR BUILDINGS ON FARMS ACCORDING TO TOTAL CONTIGUOUS ACRES IN FARM

NUMBER OF ACRES	40	80	120	160	200	240	280	320	360 & over
AMOUNT OF OVER-ALLOWANCE	1200	1600	2000	2400	2800	3200	3600	4000	4400

Appendix "I"

GROSS RETURNS FROM THREE ROTATIONS

Table No. 1

Gross return for #1 rotation (CSCOM) average per year for 5 years of crops:

Corn	2 yrs.	57.5 Bu/A @ $.893 per Bu	$102.70	
Oats	1 yr.	42.5 Bu/A @ $.48 per Bu	20.40	
Soybeans	1 yr.	24 Bu/A @ $1.57 per Bu	37.68	
Hay	1 yr.	2 Tons @ $10.00 per Ton	20.00	
Gross return for 5 years			$180.78	
Gross return for 1 year				$36.16

Gross return for #2 rotation (CCOM) average per year for 4 years of crops:

Corn	2 yrs.	57.5 Bu/A @ $.893 per Bu	$102.70	
Oats	1 yr.	42.5 Bu/A @ $.48 per Bu	20.40	
Hay	1 yr.	2 Tons @ $10.00 per Ton	20.00	
Gross return for 4 years			$143.10	
Gross return for 1 year				35.78
Gross return for 1 year (#1 rotation)				36.16
Gross return for 1 year (#2 rotation)				35.78

Gross return for #3 rotation (CCOMM) average per year for 5 years of crops:

Corn	2 yrs.	57.5 Bu/A @ $.893 per Bu	$102.70	
Oats	1 yr.	42.5 Bu/A @ $.48 per Bu	20.40	
Hay	1 yr.	2 Tons @ $10.00 per Ton	20.00	
1 year pasture			00.00	
Gross return for 5 years			$143.10	
Gross return for 1 year				28.62

Averaging the gross return of the three rotations for one years, ------------------ 3)100.56

the average per acre per year is ---------- $33.52

Production Expenses

Table No. 2

#1 Rotation -	2 Corn crops	@ 15.80 per A.	$31.60	
	1 Soybean "	@ 15.40 " "	15.40	
	1 Oat "	@ 14.02 " "	14.02	
	1 Hay "	@ 17.05 " "	17.05	
	Per acre 5 years		$78.07	
	Per acre 1 year			$15.67
#2 Rotation -	2 Corn crops	@ 15.80 per A.	$31.60	
	1 Oat "	@ 14.02 " "	14.02	
	1 Hay "	@ 17.05 " "	17.05	
	Per acre 4 years		$62.67	
	Per acre 1 year			$15.67
#3 Rotation -	2 Corn crops	@ 15.80 per A.	$31.60	
	1 Oat "	@ 14.02 " "	14.02	
	1 Hay "	@ 17.05 " Ton	17.05	
	1 Meadow year		2.50	
	Per acre 5 years		$70.17	
	Per acre 1 year			$14.03
				3)45.31
	Average per acre per year			$15.10

Table No. 3

Insurance per acre per year	1.00%
Maintenance per acre per year	2.40
Amortization per acre per year	2.77
Contingencies per acre per year	1.50
	7.67%

7.67% of $3145 - $241.22 per 114 acres per year, or $2.12 per acre.

Assuming a soil quality of 1.5 CSR, the gross income from the three rotations works out as shown in Table No. 1.

Fixed Expenses

Table No. 4

Fences - 1.25 per year per acre	$1.25	
Failure - 5% of Gross Take per year per acre	1.68	
Management - 10% of Gross Take per year per acre	3.35	
Total Fixed Expense for one year		$6.28

Taxes

Table No. 5

Assuming actual normal value of $100 per A. for 114 A.	$ 11400
Building Value	3145
Total 100% Value	$14545

Average millage = .050 x 8727 = $436.35 Property Tax

Tax per acre	$ 3.83

Final Statement

GROSS INCOME AND EXPENSE PER ACRE

(Table No. 1) Gross Income per Acre			$33.52
Production Expense per acre	Table 2	$15.10	
Building Expense per acre	Table 3	$ 2.12	
Fixed Expense per acre	Table 4	$ 6.28	
Taxes per acre	Table 5	$ 3.83	27.33
Net Profit			$ 6.19
Less a 5% Safety Factor deduction			.30
Balance for Capitalization			$ 5.89

$5.89 per acre capitalized at 5% return = $117.80 value per acre of a grade land of 1.5 CSR.

In estimating expenses for the four-year period 1953 through 1957 it was assumed that costs and expense of operation would remain at their relatively high levels. It was assumed that wages will remain as they are now or higher, hence machinery, fertilizer and supplies for the farm will probably advance. If parity is removed or lowered, it seems likely that the prices of farm products will stabilized at a lower level. These forecasts were considered in setting the top value of $117 per acre for land for CSR of 1.5. Values per acre were reduced proportionately as the CSR rating grade increased. #1 grade is best, #10 grade is poorest.

These values then have to be adjusted for non-earning factors, such as location in relation to markets and roads; physical features, such as ditches and railroad rights-of-way; and hazards, such as flooding; all of which are not shown on the soil map and hence not accounted for in the graded soil mapping.

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Appendix "J"

Relative corn suitability ratings for some Polk County, Iowa soils
(Ratings for areas used for cropland or suitable for cropland if not extra
cost involved, as clearing woodlots. Adjustments made for special use hazards)

Soil Series Assoc. & Type	SLOPE CLASSES																				
	1(0-2%)	3(205%)				7(5-9%)				11(9-14%)			17(14-20%)			SPECIAL CONDITIONS					
						EROSION CLASSES															
		0	1	2	3	0	1	2	3	0&18	2	3	0&1	2	3	c	cc	W	(3)	♉	SPECIAL HAZARDS
Ida si. lo							6.0	6.5		7	7		8	8						(2)	
Glencoe si.cl.lo.		6																8		10	(1)
Judson si. lo.	2	2														7		8		(2)	(4)
Shallow muck	5	5																		10	(1)
Burchard lo.										6.5	7	7.5	7.5	8	8.5						
Terril lo.	2	2	2			2.5	2.5														
Nicollet																					
si. lo to lo.	1.5	1.5	1.5																		
Chelsea sand			9	9	9			9.5	9.5	10	10	10	10	10	10						
Webster calc.																					
var.	2.5																			(2)	
Webster, hvy.																		5		10(2)	
subsoil	2.5																	5		10	
Gravity si.																				(2)	
cl. lo.	3	3														5		8		10	(5)

Assumptions made in establishing ratings:

1. No special practices to control erosion are used.
2. Rotation of corn, oats, meadow assumed in rating soils.
3. Soils assumed to be reasonably well tiled and drained.
4. Soils limed as needed, light applications commercial fertilizer and manure.

Footnotes:

(1) Special attention should be given Glencoe, muck and peat soils, with possible adjustments if drainage is not economically feasible due to unsuitable outlet.

(2) This rating is to be used if the entire area is wet and marshy. Note that the "wet spot" symble, , is also used for occasional abnormally wet, marshy spots in soil area, for which special adjustments may be required.

(3) The overscore symbol, ‾‾‾, is used to indicate areas subject to very frequent flooding.

(4) These soils may occur as narrow areas in hilly landscapes in which the soil pattern restricts their use and management, so that special adjustments may be necessary. For example, Modaway or Wabash-Judson soils often occur along small streams or drainageways in a landscape of rolling and hilly Tama, Downs, and Shelby soils.

(5) Special attention is to be given frequency of flooding on these soils of the first and second bottomlands, with special adjustments if certain areas have abnormally high frequency of flooding.

TOPSOIL (SURFACE) THICKNESS OR EROSION CLASSES

0 : - Indicates topsoil thickness of 12 to 30 inches (depending on soil type).

1 : - Indicates topsoil thickness of 7 to 12 inches (few or no areas of exposed subsoil).

2 : - Indicates topsoil thickness of 4 to 6 inches (surface soils mixed with subsoils).

3 : - Mostly exposed subsoil or substratum.

4 : - Frequent gullies in small area.

L : - Indicates cultivated land (intertilled, small grain or rotation meadow).

P : - Indicates permanent pasture (bluegrass).

F : - Indicates woodland.

X : - Indicates idle or wasteland.

H : - Farmstead or farm lots.

GULLIES

⟿ Deep actively cutting upland gully.

——————→ Uncrossable stream.

——— ———→ Shallow natural drainway or shallow crossable gully.

———• •———→ Crossable drainage ditch or upland gully.

——- - - - -→ Intermittent uncrossable stream.

OTHER SYMBOLS

S : - (Capital S isolated) Indicates 1/2 acre or less of Storden (#62).

R : - (Capital R isolated) Indicates 1/2 acre or less of Rolfe (#274).

W : - (Lower case, isolated or after soil type number, i.e. 259w) Indicate areas are somewhat wet for best crop growth at the time the area was mapped. Where sedge-swamp vegetation is present the standard (1) crow-foot symbol should also be included.

C : - (Lower case, after soil type number, i.e. 98c) Indicates areas cut up by strongly meandering stream and oxboles so that normal cultivation of soil is not feasible.

CC: - (Lower case, after soil type number, i.e. 98cc) Indicates areas of old partially filled oxboles or gently meandering streams that are usually cultivated but oxbow areas may be wet or ponded after flooding.

T : - Upper case (before soil type number, i.e. T175) Indicates structures bench or terrace.

A : - (Lower case, after soil type number, i.e. 107a) Indicates areas of moderate surface effervescence or moderate high lime. To be used only after naturally poorly or imperfectly aerated or oxidized soils (i.e. 107z, 55a, 259a, 203a). (138a, etc.). Lime.

Indicates small, 1/2 acre or less, or sand spots.

Indicates small, 1/2 acre or more, of gravelly spot.

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Appendix "K"

LONG-TIME COMMODITY PRICE AND COST DATA

The following long-time commodity prices and cost data will assist State Directors in preparing State Instructions which will contain long-time commodity prices and cost data for use by appraisers in making farm appraisals:

I. Long-Time Commodity Prices

Commodity	Unit	Price
Livestock and Products:		
Beef cattle	lb.	.12
Hogs	lb.	.12
Sheep	lb.	.06
Lambs	lb.	.14
Butterfat	lb.	.40
Milk	100 lb.	2.65
Chickens	lb.	.175
Eggs	doz.	.313
Wool	lb.	.33
Crops:		
Wheat	bu.	1.10
Corn	bu.	.95
Oats	bu.	.50
Barley	bu.	.75
Rye	bu.	.75
Rice	bu.	1.00
Cotton	lb.	.15
Cotton seed	ton	38.00
Flax seed	bu.	2.25
Soybeans	bu.	1.40
Peanuts	lb.	.05
Hay, bailed	ton	15.00
Potatoes	bu.	.80
Sweet potatoes	bu.	1.15
Apples	bu.	1.10
Grapefruit	box	.25
Oranges	box	.70

Tobacco:

Flue-cure	lb.	.33
Burley	lb.	.32

II. LONG-TIME COST DATA EXPRESSED BY INDEXES (1914 - 100)

Item	Index
Food	200
Clothing	185
Operating Expenses	155
Furniture and Furnishing	180
Building Materials (House)	220
Family Living Items	190
Feed	160
Farm Machinery	175
Building Materials (Other than House)	200
Equipment and Supplies	140
Fertilizer	125
Interest and Taxes	175
Farm Wages	275

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Appendix "L"

NDEX OF ARKANSAS FARM REAL ESTATE PRICES, 1912 - 1955

Year	Index Number
1912-14	100
1915	95
1920	222
1925	160
1930	141
1935	88
1940	95
1945	167
1950	246
1955	300

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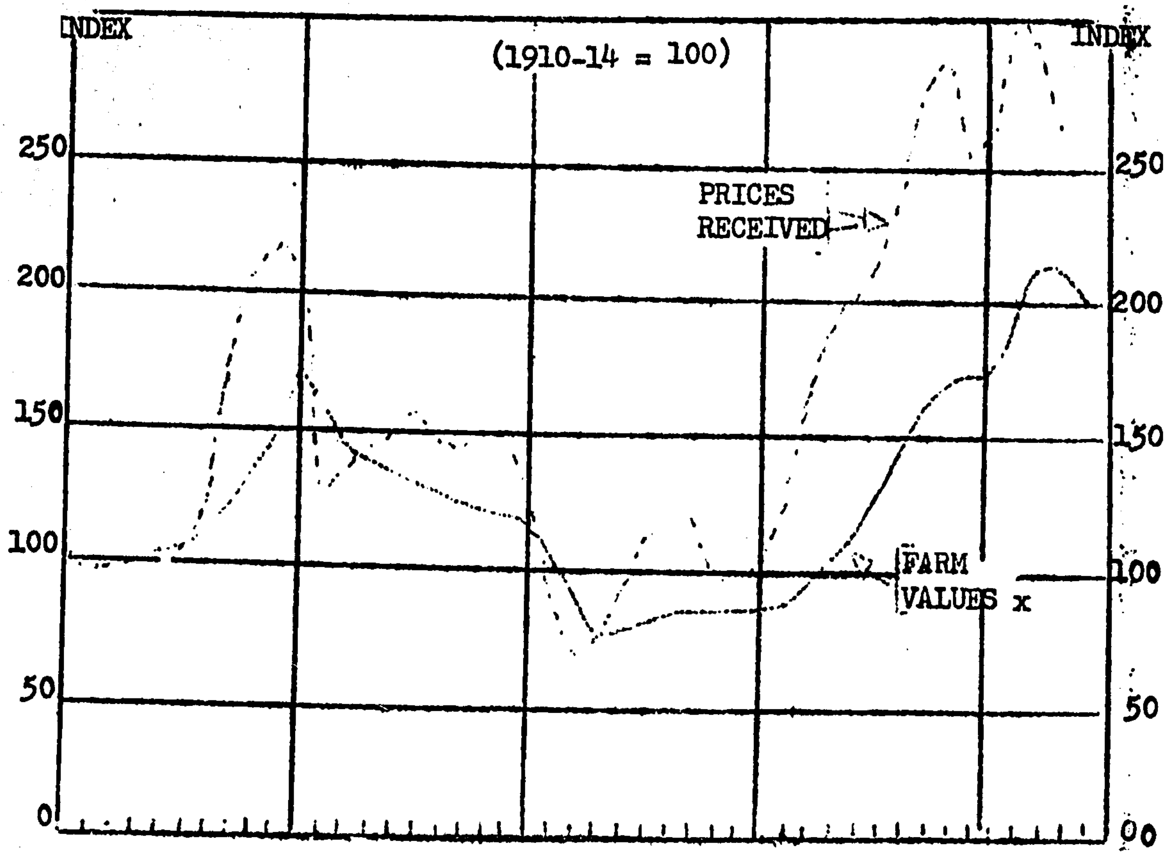
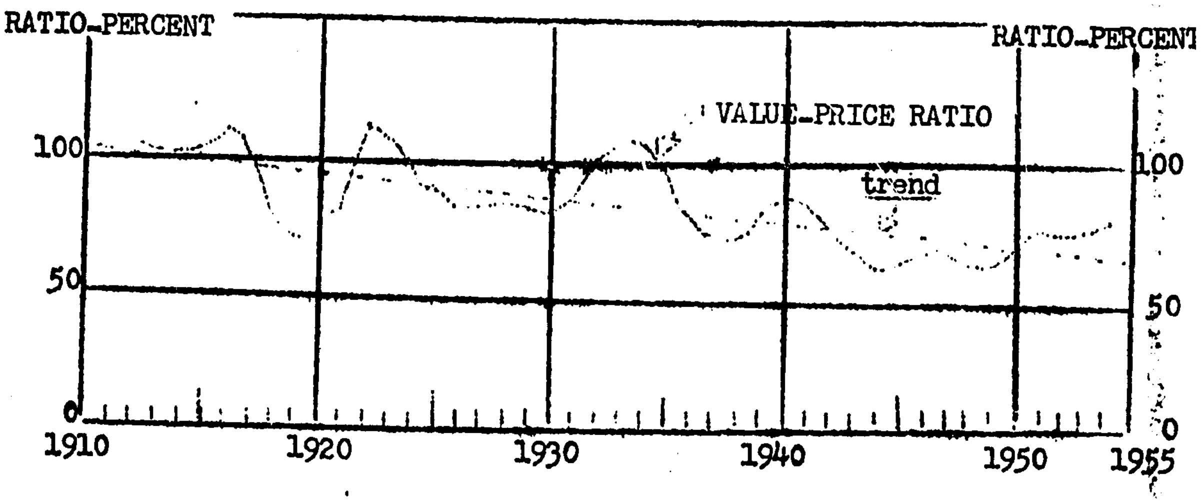
UNITED STATES FARM VALUES PER ACRE, AND COMMODITY PRICES RECEIVED BY FARMERS



FARM VALUES INDEX AS A PERCENT OF PRICES RECEIVED INDEX

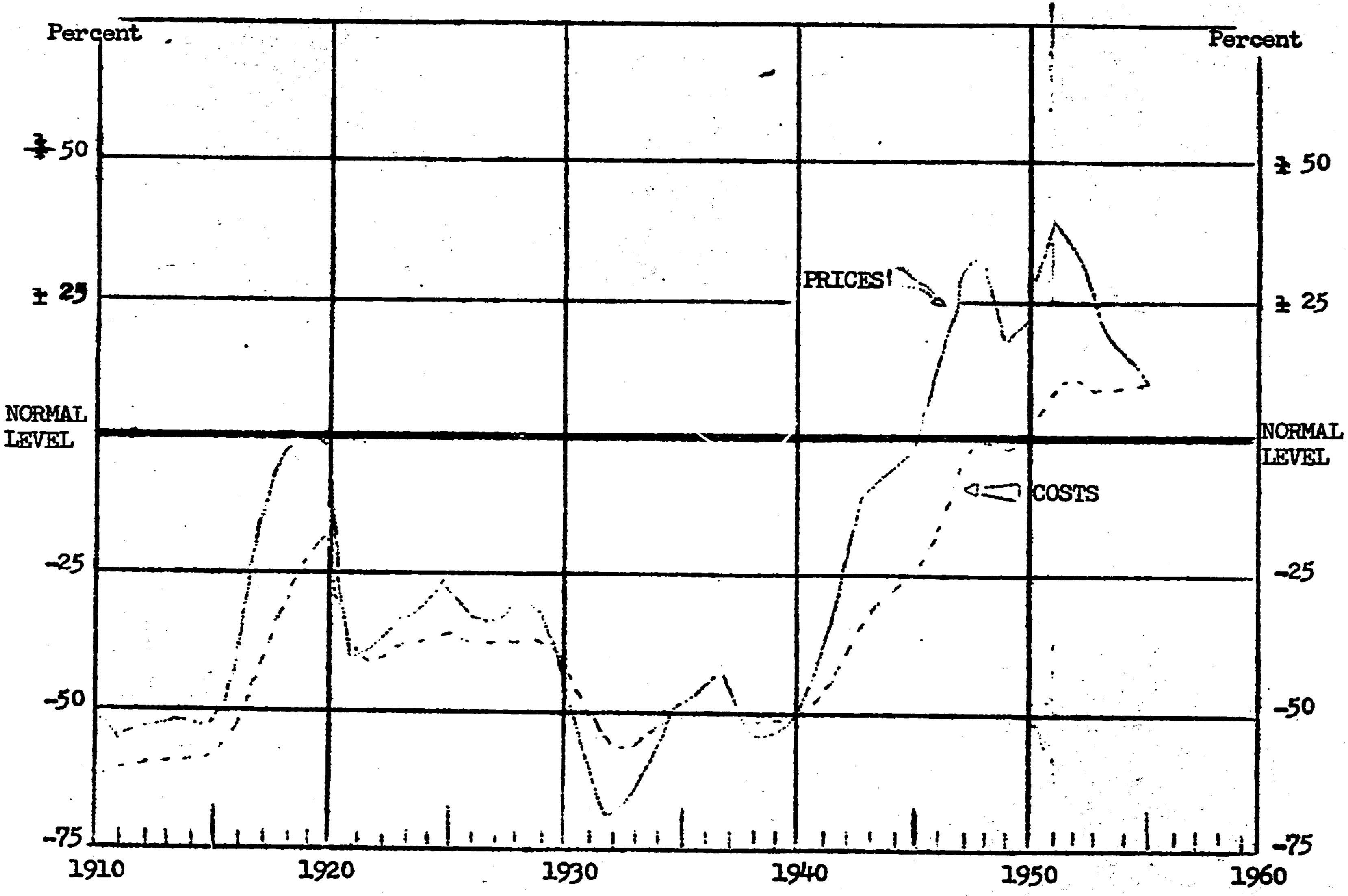


x 1912-14 = 100

Economic and Credit Analysis Division

Appendix No. N

U. S. Levels of Commodity Prices Recieved and Operating Costs Paid by Farmers



Appendix "O"

Normal Costs on a National Basis with Comparisons

Kind of Costs	Examples of Cost Items Included	Normal Costs as a Percent of			
		Costs Paid In 1948	Costs Paid In 1949	Costs Paid In 1950	Costs Paid In 1954
Building and Fencing Materials	Lumber, cement, roofing, paint, fence posts, barbed wire, etc.	100	100-105	100	90
Farm Machinery	Hay baler, cultivator grain drill, plow power sprayer, etc.	115	105	100	90
Motor Vehicles	Tractor, motor truck, automobile	105-110	100	100	90
Motor Supplies	Gasoline, motor oil, tires, batteries, etc.	100	100	95-100	90
General Farm Supplies	Hammer, hoe, milk can, rope, containers, insecticides, etc.	110	105	105	95
Fertilizer and Lime	Mixed fertilizer, nitrate of soda superphospate, potash, lime, etc.	110	95-100	100	95

Feed Purchased	Dairy ration, poultry mash, soybean meal, bran corn, tankage, etc.	85	100	100	90-95
Livestock Purchased	Feeder and stocker cattle, feeder lambs, etc.	70	75-80	65-70	90-95
Seeds Purchased	Grass, clover, grains, oilseeds, etc.	80	85-90	90-95	80
Wages to Hired Labor	Farm workers hired by day, week, or month	95-100	100	100-105	85-90
Tax Paid	Farm real estate tax	140	130	120	100
Average for All Cost Purchased	All of the groups of items listed above	100	104	102	92

Appendix "P"

NORMAL PRICES ON A NATIONAL AND STATE BASIS

Commodity	Unit	Normal Price in Use	
		National Average	Range in State Average Prices
		Dollars	
Wheat	Bu.	1.60	1.50 - 1.70
Corn	Bu.	1.20	1.10 - 1.70
Oats	Bu.	.63	.55 - 1.10
Rice	Cwt.	4.00	3.85 - 4.20
Cotton, upland	Lb.	.24	.22 - .25
Cattle, all agrades	Cwt.	15.65	11.50 - 17.50
Hogs	Cwt.	15.50	14.00 - 17.00
Lambs	Cwt.	17.00	12.75 - 19.00
Butterfat	Lb.	.50	.40 - .55
Eggs	Doz.	.34	.26 - .46